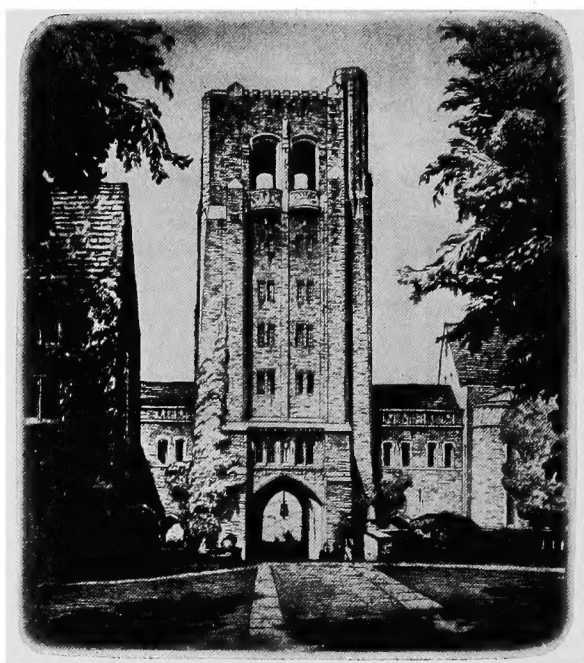




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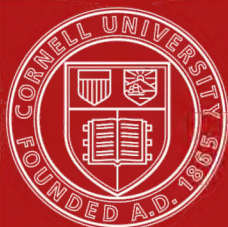
Commercial banking practice under the Fe



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Commercial Banking Practice

**under the
Federal Reserve Act**



Revised Edition

**National Bank of Commerce
in New York**

October, 1918

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THE GIFT OF

National Bank of Commerce
New York City.

Date *Feb. 24, 1919.*

**Commercial
Banking Practice**
under the
Federal Reserve Act

THE Law and Regulations, the
Informal Rulings of the Federal
Reserve Board, and the Opinions of
Counsel governing Bank Acceptances,
Rediscounts, Advances, and Open
Market Transactions of the Federal
Reserve Banks.

Revised to
October, 1918

Service Department

National Bank of Commerce
in New York

B9692.
AUTHORITIES

This book has been compiled from the following
official sources:

FEDERAL RESERVE ACT
NATIONAL BANK ACT
WAR FINANCE CORPORATION ACT
REGULATIONS OF THE FEDERAL RESERVE BOARD
FEDERAL RESERVE BULLETIN

First Edition, July, 1917
Revised Edition, October, 1918



Foreword

Commercial banking has been made more efficient through the use of acceptances. The National Bank of Commerce in New York has been a pioneer in recommending a broader use of acceptances, and this Bank is today handling a large and increasing volume of acceptance business.

We are engaged in a commercial banking business, and, therefore, our interest in commercial banking practice is fundamental. This volume has been compiled to meet the needs of practical business men and bankers—the customers and friends of the National Bank of Commerce in New York.

The present edition is a complete revision up to October 1918 of our first edition issued in July 1917. We have attempted not only to revise but to improve the first book.

This Bank is prepared to answer questions in regard to commercial banking practice with particular reference to the use of acceptances. We are constantly in touch with new developments in the laws and rulings affecting commercial banking, and we have complete information regarding the acceptance market.

JAMES S. ALEXANDER,

President

TRADE ACCEPTANCE

No. 115

New York, N. Y., October 16, 1918.

\$ 16,120.73

Sixteen thousand one hundred twenty and 73/100 ----- Dollars.

After ninety days pay to the order of OURSELVES

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer.

To John Adams & Company,

New York, N. Y.

Due January 15, 1919.

Date

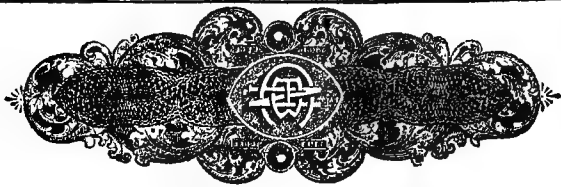
Payable at National Bank of Commerce in New York

Signature

John Adams

James Stewart

SPECIMEN OF TRADE ACCEPTANCE



No. 8929
October 11, 1919
PAID
January 9, 1919.
NATIONAL BANK OF COMMERCE IN NEW YORK

by *John Doe*

by *Richard Roe*

ASSISTANT CASHIER

ASST. MGR. FOREIGN DEPT.

NATIONAL BANK OF COMMERCE

IN NEW YORK.
NEW YORK

Drawn under special order of the National Bank of Commerce Letter of Credit #25638 dated August 22, 1918.

Ninety thousand and hundred Dollars - - - - - \$ 78,200.00

Yokohama, Japan, September 18, 1918.
after sight pay to the order of

Joseph Long Company

SPECIMEN OF BANK ACCEPTANCE

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PART I.

Bank
Acceptances

PART I.

Bank Acceptances

The term "acceptance" designates a draft or bill of exchange drawn to order, payable at a definite time after date or sight, the obligation to pay which has been accepted by an acknowledgment thereon written or stamped and signed (generally across the face of the instrument) by the party on whom the bill is drawn. This acknowledgment, which generally consists merely of the word "accepted" followed by signature and date, constitutes the agreement of the acceptor to pay the draft at maturity according to its tenor, without qualifying conditions. To be negotiable, such an accepted bill must be for a definite amount and must be payable in money.

"Acceptance" defined.

An ordinary "trade acceptance" is created when, for example, the seller of merchandise draws a draft for the purchase price on the purchaser and the purchaser accepts the draft. The purchaser, however, may enter into an agreement with his bank whereby the bill is drawn on the bank and is accepted by it for his account instead of by the purchaser himself. Such a draft, when accepted, becomes a "bank acceptance." The Federal Reserve Board has defined a bank acceptance as "a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits."

Bank acceptance.

Definition.

Bank acceptances are used largely in financing international trade and domestic transactions involving major staple commodities. They hold a

Use of bank acceptances.

preeminent place among credit instruments and offer a means of investment in which the credit risk has practically been eliminated. This is due to the fact that direct responsibility for their payment rests on banking institutions whose credit is generally and widely known.

**Coverture of
acceptances.**

At a meeting of the leading banks and bankers of New York, Boston, Philadelphia, and other cities, held at the National Bank of Commerce in New York, August 14, 1918, it was resolved that:

"The accepting bank shall require from its clients that it be placed in funds to meet acceptances on day of maturity either by

- "(a) The deposit of clearing house funds one day prior to maturity, or
- "(b) The deposit of cash or check on the Federal Reserve Bank of New York on the day of maturity, or
- "(c) Debit to the account of the bank's client on day of maturity against funds cleared on, or prior to, such date."

General Statutory Provisions

Section 13 of the Federal Reserve Act, as amended, provides as follows with regard to the power of national banks as members of the Federal Reserve System to accept drafts or bills of exchange:

“Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months’ sight to run, exclusive of days of grace,

Acceptance of drafts.

“I. Which grow out of transactions involving the importation or exportation of goods; or

Against imports and exports.

“II. Which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or

Against domestic shipments.

“III. Which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

Against goods in warehouse.

“No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and

Limit on acceptances for one interest.

“No bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus:

Limit on aggregate acceptances.

“Provided, however, that the Federal Reserve Board, under such general regulations as it may

Extension of limit.

prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus:

Limit on aggregate domestic acceptances.

“Provided, further, that the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

Acceptances for dollar exchange.

“IV. Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months’ sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

Acceptances for one bank limited.

“Provided, however, that no member bank shall accept such drafts or bills of exchange referred to in this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security:

Limit on aggregate of such acceptances.

“Provided, further, that no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.”

(Federal Reserve Act, Section 13.)

Acceptance Policy of the Federal Reserve Board

GENERAL STATEMENT

The Federal Reserve Board desires to avoid the adoption of rigid regulations covering acceptances. The development of an efficient acceptance system will be facilitated if the banks of the United States assimilate and voluntarily adopt the underlying principles by which the Board must be guided, without requiring inflexible rules.

Conservation of the strength of the Federal Reserve System requires:

Principles essential to strength of Reserve System.

(a) That it be possessed of short paper well scattered in its maturities (not exceeding ninety days);

(b) That when this paper matures it can be actually collected;

(c) That the supply of new paper coming into the market can be controlled to a certain degree by an advance or decline in the rate of interest at which bankers' acceptances are bought.

Agreements to grant credits for an extended period by the purchase of 90-day paper or by 90-day acceptances ought to be based upon transactions connected directly with the purchase and sale of goods and the intermediate process of manufacturing. Credits so extended should relate to the [liquid] resources of the borrowing concern and should not be granted for the purpose of furnishing working capital or for the temporary financing of permanent investments.

Character of acceptance credits.

These transactions should be of an individual character. They call for direct contact between banker and borrower, and syndicate credits should be avoided. Agreements by bankers to furnish one or two year money at a definite rate of interest against 90-day paper or acceptances to be used to finance themselves should not be countenanced, either openly or in the form of exchange of paper between bankers.

(Memorandum issued by Federal Reserve Board, Pages 257, 260, April, 1918, Bulletin; printed in full at Pages 257-260.)

SYNDICATE ACCEPTANCE CREDITS

Policy of Federal Reserve Board.

The Federal Reserve Board has issued a memorandum stating its policy in dealing with acceptances drawn under credits extending over a period of one or two years.

Authorization.

In this memorandum the Board authorized the banks of New York, during a period which may be declared ended at any time, to proceed upon certain principles which may be summed up as follows:

Duration of credits.

(1) Acceptance credits opened for periods in excess of 90 days should only, in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.

Rate.

(2) Banks which are members of groups opening these credits should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but should be based upon the rate ruling at the time of the sale.

Character.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal reserve bank subject to the approval in each case of the Federal Reserve Board.

Approval of
Federal Reserve
Board.

It must be understood in passing upon these transactions that not only quality but also quantity must be the controlling factors. The aggregate of these acceptances should not be permitted to constitute the greater proportion of outstanding acceptances at any time, and it must be understood that while the Federal reserve banks and the Federal Reserve Board might look with favor upon a transaction as long as the total amount involved is not excessive, transactions of exactly the same character may be ruled out whenever the aggregate amount of outstanding acceptances of this character becomes, in the opinion of the Federal Reserve Board, unduly large.

Quality and
quantity the
controlling
factors.

(Announcement of Federal Reserve Board, Page 257, April, 1918, Bulletin.)

Bank Acceptances Based on Imports and Exports

CHARACTER

Statutory Provisions

Acceptances
in foreign
trade.

"Any member bank may accept drafts or bills of exchange . . . which grow out of transactions involving the importation or exportation of goods."

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Determination of Character of Transactions on Which Acceptances Are Based.

Identification
of specific
goods not
required.

Held not to be necessary that the specific goods covered by an acceptance based upon an import or export transaction must be identified at the time of the acceptance.

(Informal Ruling, Page 405, December, 1915, Bulletin.)

Good faith
a test.

Good faith must be relied upon to a large extent in determining whether an acceptance is based upon a transaction involving the importation or exportation of goods. A member bank would be justified in putting on the legend "this acceptance is based on a transaction involving the importation or exportation of goods," provided it is satisfied the statement by its customer is made in good faith.

(Informal Ruling, Page 406, December, 1915, Bulletin.)

Member banks may best protect themselves in determining whether acceptances are based upon the exportation or importation of goods by stipulating the right at times to ask for substantiation of assurances from a customer.

Proof of assurances.

(Informal Ruling, Page 406, December, 1915, Bulletin.)

Transaction Must Itself Involve Import or Export of Goods.

A transaction, in order to be the basis of a draft or bill eligible for acceptance by a member bank, must itself involve the importation or exportation of goods. A transaction wholly independent of the transaction covering the importation or exportation of goods is not sufficient basis for an acceptance, under the terms of section 13 (relating to acceptances against imports or exports).

Transactions independent of import or export not sufficient basis.

(Opinion of Counsel, Page 276, September, 1915, Bulletin.)

Where the contract between a seller of goods who draws a draft and the purchaser is entirely independent of the contract for the export of the goods, the draft would have to be treated as drawn in a domestic transaction and would have to be accompanied by shipping documents or secured by warehouse receipts or other similar documents conveying and securing title when accepted by the drawee bank.

Drafts treated as drawn in domestic transactions.

(Informal Ruling, Page 435, May, 1918, Bulletin.)

A dealer having drawn drafts accepted by a member bank in an export transaction should be given the option, with the consent of the accepting bank, to secure such drafts in the manner required of those drawn in domestic transactions if he wishes to use the proceeds derived from the sale of the goods exported for purposes other than the payment of such acceptances.

Option to secure drafts as in domestic transactions.

(Opinion of Counsel, Page 439, May, 1918, Bulletin.)

Acceptance at
instance of
exporter.

If a drawee bank accepts at the instance of the purchaser of goods, the purchaser having a contract to export such goods, the drafts would grow out of a transaction involving the export of goods and could be accepted by the drawee bank under authority of section 13.

(Informal Ruling, Page 435, May, 1918, Bulletin.)

Intention to
export ultimately
not sufficient basis.

Where a domestic corporation "A" enters into a contract with another domestic corporation "B" to furnish material to be used by "B" in the manufacture of products which "B" is under contract to export, the mere fact that the material furnished is ultimately intended for export in some form can not be said to merge the two transactions into one. The transaction between "A" and "B" could not be said to involve the exportation of goods.

(Opinion of Counsel, Page 276, September, 1915, Bulletin.)

Sale to Allied
Purchasing Com-
mission involves
export.

A member bank may accept drafts drawn for the purpose of financing the sale of goods to one of the allied purchasing commissions, such goods to be delivered aboard ship and paid for within a reasonable time thereafter.

It is held that the sale of goods in the manner indicated comes within the terms of section 13, authorizing a member bank to accept drafts "growing out of transactions involving the importation or exportation of goods," even though title to the goods be transferred to the foreign purchaser before the shipment out of the United States actually begins. The transaction against which the draft is drawn involves the direct sale to a foreign purchaser, and the fact that the sale itself may be consummated before the exportation of the goods actually commences is immaterial, provided that the transaction is bona fide, and that the accepting bank has no reason to believe that the purchaser will divert the goods from their foreign destination.

(Informal Ruling, Page 878, November, 1917, Bulletin.)

Acceptance of Drafts Prior to Purchase or Sale of Goods Imported or Exported.

In interpreting the word "involved" in connection with the importation or exportation of goods, upon which an acceptance has been based, it is held that goods may be purchased and shipped subsequent to the time of the first acceptance, provided that there is a definite bona fide contract for the shipment of the goods within a specified and reasonable time.

Goods purchased subsequent to acceptance.

(Informal Ruling, Page 405, December, 1915, Bulletin.)

Section 13 of Federal Reserve Act construed to justify a national bank in accepting a draft drawn upon it in settlement of advances for cotton being accumulated by cotton buyers for export. The fact that there is a temporary delay in actual shipment of goods is immaterial.

Delay in shipment is immaterial.

(Informal Ruling, Page 458, September, 1916, Bulletin.)

A national bank may properly accept a draft, drawn for the purpose of importing goods whether or not the sale of the goods under consideration has actually been consummated at the time of the acceptance of the draft, if the accepting bank is assured that the proceeds of the draft will ultimately be used solely for the purpose of financing a transaction involving the importation of goods. It is not necessary that the goods to be sold be identified at the time of acceptance. The accepting bank, however, must be reasonably sure that the draft is drawn for the purpose of financing a transaction involving the importation or exportation of goods, and that its proceeds will be used for that purpose.

Acceptances against future importations of goods.

(Informal Ruling, Page 527, July, 1917, Bulletin.)

A member bank would be justified, if fully secured, in accepting drafts drawn by a local cotton-buying firm having a contract to sell to foreign buyers if the transaction, after having been made in

Export contract not fulfilled.

good faith, ultimately resulted in the sale of the cotton to an American instead of a foreign purchaser. It was assumed in connection with this interpretation of section 13 that the bank had received permission from the Board to accept drafts or bills of exchange drawn upon it; that the cotton buyers had a contract to sell cotton to a firm of Liverpool; that they held the cotton subject to shipping receipt of the Liverpool firm; and that because of freight rates and shipping conditions the Liverpool firm changed its policy and directed the sale of the cotton.

(Informal Ruling, Page 13, January, 1916, Bulletin.)

Drafts drawn
against collateral
of acceptances.

An acceptance house which has purchased an acceptance based on the importation or exportation of goods desires to reimburse itself by drawing a bill upon a national bank, pledging as collateral security for the bill the original acceptance. It is held that the new bill cannot properly be said to grow out of the original export transaction in the sense contemplated by the Federal Reserve Act.

Ineligible for
acceptance.

A national bank is not authorized to accept a draft drawn under the above circumstances because it is not an acceptance growing out of a transaction involving the importation or exportation of goods, nor drawn by a bank or banker located in a foreign country, nor does it grow out of a transaction involving the domestic shipment or storage of goods.

(Informal Ruling, Page 29, January, 1917, Bulletin.)

Acceptance Agreements of Dealers in Same Goods for Export and Domestic Sale.

When acceptance
agreements
should show
basis of drafts.

Where a dealer who is engaged in the purchase of the same character and class of goods for export and for domestic use desires to finance the purchase and sale of goods to be exported, his agreement with a member bank accepting such drafts should show:

(a) that he has a contract for the export of the goods;

(b) that the total amount of drafts under such credit will not exceed the aggregate amount involved in the export transaction;

(c) that the proceeds of the drafts are to be used in connection with the export transaction; and

(d) that the proceeds of the sale of goods exported will be applied in payment of the acceptances unless the dealer has in the meantime placed the bank in funds to meet them at maturity, or has secured such acceptances in the manner required of domestic acceptances.

Or drafts should be secured.

(Opinion of Counsel, Page 488, May, 1918, Bulletin.)

Acceptances against Coin and Bullion.

Gold coin is "goods" within the meaning of section 13 of the Federal Reserve Act. Gold coin.

(Informal Ruling, Page 29, January, 1917, Bulletin.)

Gold bars may be properly considered as goods. Bullion.

(Informal Ruling, Page 29, January, 1917, Bulletin.)

MATURITY

Statutory Provisions

Acceptances of member banks against imports and exports are limited to drafts "having not more than six months' sight to run, exclusive of days of grace." Maturity.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Duration of Acceptance Credits.

A national bank is held to be authorized to enter into an agreement having more than six months to run, by the terms of which it obligates itself for a period of time specified in the agreement to accept Duration exceeding six months.

drafts drawn upon it, provided such drafts grow out of transactions involving the importation or exportation of goods, and that the individual drafts have not more than six months' sight to run. This distinction is emphasized: "While a letter of credit or credit agreement may lawfully be made by a national bank which will extend by its terms for a period exceeding six months, the agreement must not be of such a character as will impose upon the holders of drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft."

(Informal Ruling, Page 269, September, 1915, Bulletin.)

**Syndicate
acceptance
credits.**

For statement of policy of Federal Reserve Board with regard to syndicate acceptance credits having a duration of several years, see "Syndicate Acceptance Credits," pages 14-15, above.

Renewal of Bank Acceptances.

**Renewals for
reasonable periods.**

Upon payment of an acceptance the accepting bank may for a reasonable period accept new drafts for the financing of the original transaction, even after the shipment and delivery of the goods, provided such renewals be stipulated in the original contract as an incidental condition of the transaction of importation or exportation upon which the acceptance is based.

(Informal Ruling, Page 405, December, 1915, Bulletin.)

**Renewals against
imports on docks.**

The acceptance of a private banking house made for a bag company, stating in the body of the draft that it is for burlap from Calcutta stored on the docks, might be continued or renewed while the goods are on the dock.

(Informal Ruling, Page 80, January, 1917, Bulletin.)

AMOUNT BANK MAY ACCEPT FOR ONE INTEREST

Statutory Provisions

"No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance."

Ten per
cent limit.

Exception.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Drafts accepted by foreign correspondents at the request and under the guarantee of a national bank in the United States should be reported as a direct liability of such national bank, and treated as subject to the limitations imposed by the Federal Reserve Act on the acceptance power of national banks.

Acceptances
of foreign
correspondent
under guarantee
of national bank.

(Opinion of Counsel, Page 311, April, 1918, Bulletin.)

Exemption from Ten Per Cent Limit.

The ten per cent limit upon the amount of acceptances which any member bank might make for any one person, company, firm, or corporation does not apply if "the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance."
• . . "

Secured
bills.

If documents which were attached at the time of the acceptance are surrendered and no other security growing out of the same transaction is substituted, the ten per cent limit will apply. The ac-

Accepting
bank must
remain secured.

cepting bank must remain secured in the manner prescribed during the life of the acceptance in order to be exempt from the ten per cent limit.

(Informal Ruling, Page 286, April, 1917, Bulletin.)

What constitutes actual security growing out of same transaction.

The only doubtful question is as to what constitutes "some other actual security growing out of the same transaction as the acceptance." The ten per cent limit does not apply where the acceptor holds:

1. Shipping documents.
2. Warehouse receipts.
3. Trust receipts which do not enable the borrower to obtain the goods for his own use.

The ten per cent limit does apply where the bank holds merely the ordinary trust receipt which gives it only a lien on the goods in the hands of the purchaser or on their proceeds.

(Informal Ruling, Page 286, April, 1917, Bulletin.)

Trust receipts as actual security.

If an acceptance is secured by shipping documents which are surrendered by the acceptor for a trust receipt which permits the purchaser of the goods to retain control of the goods, the accepting bank cannot be said to be secured "by some other actual security" as provided in section 13 of the Federal Reserve Act. A trust receipt, however, which does not permit the purchaser to procure control of the goods, may properly be said to be actual security within the meaning of the Act.

(Opinion of Counsel, Page 881, November, 1917, Bulletin.)

Relation of United States Revised Statutes, Section 5200, to the Ten Per Cent Limit.

When section 5200 applies.

A member bank may legally purchase its own acceptances, but such a transaction is equivalent to a loan or advance to the customer for whom the ac-

ceptance was made and the liability of such customer becomes subject to the limitations of section 5200, Revised Statutes.

The limitations imposed by section 5200, Revised Statutes, on the amount of money which may be borrowed by any individual from a member bank do not apply to acceptances of such bank.

When not applicable.

(Opinion of Counsel, Page 680, December, 1916, Bulletin.)

Where a national bank has already loaned 10 per cent of its capital and surplus to a certain company, it may, while the loan is still outstanding, obligate itself as acceptor on a draft drawn by the same company.

Acceptances in addition to loans.

If, however, the member bank discounts its own acceptance under the foregoing circumstances, it must treat the transaction as a loan and not as an acceptance, and could not in that case lend to, and accept for, the same firm in an aggregate amount in excess of the 10 per cent prescribed by section 5200.

Exception.

(Informal Ruling, Page 197, March, 1918, Bulletin.)

The ten per cent limitation imposed by section 5200 of the Revised Statutes is not intended to apply to the mere acceptance of a bill of exchange, but the provisions of section 5200 would apply to the indebtedness arising between the drawer of the bill and the accepting bank in case the drawer fails to furnish funds with which to meet the acceptance at maturity.

When drawer fails to provide funds to meet acceptance.

(Informal Ruling, Page 64, February, 1916, Bulletin; repeated from Page 269, September, 1915, Bulletin.)

NOTE: The limitations imposed by the Federal Reserve Act on the amount a bank may accept for any one interest apply to drafts "whether in a foreign or domestic transaction." The 10 per cent limit, therefore, applies to the aggregate of both domestic and foreign drafts accepted for one interest.

AGGREGATE AMOUNT BANK MAY ACCEPT

Statutory Provisions

**Fifty per
cent limit.**

"No bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus:

**Acceptances
up to 100 per cent.**

"Provided, however, that the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus. . . ."

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

**Application
for power to
accept up to
100 per cent.**

Under the provisions of the law . . . the Federal Reserve Board has determined that any member bank, having an unimpaired capital equal to at least twenty per centum of its paid-up capital, which desires to accept drafts or bills of exchange . . . up to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal reserve bank of the district in which the applying bank is located.

**Report on
application.**

The Federal reserve bank shall report to the Federal Reserve Board upon the standing of the applying bank, stating whether the business and banking conditions prevailing in its district warrant the granting of such application.

The approval of any such application may be rescinded upon 90 days' notice to the bank affected.

Reversal of approval.

(Regulations of Federal Reserve Board, Regulation C, Series of 1917, A, II.)

Opinions and Rulings

Authority from the Federal Reserve Board is not necessary for a member bank to undertake acceptance business, unless the bank wishes to exceed 50 per cent of its capital and surplus.

Permission to accept up to 50 per cent not required.

(Informal Ruling, Page 126, July, 1915, Bulletin.)

Drafts accepted by foreign correspondents at the request and under the guarantee of a national bank in the United States should be reported as a direct liability of such national bank, and should be treated as subject to the limitations imposed by the Federal Reserve Act on the acceptance power of national banks.

Acceptances of correspondents under guarantee of national bank.

(Opinion of Counsel, Page 311, April, 1918, Bulletin.)

When a member bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by section 13.

Purchase of bank's own acceptance.

(Opinion of Counsel, Page 397, August, 1916, Bulletin. See also "Purchase by National Bank of Its Own Acceptances," pages 45-46, below.)

The limitations imposed by section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.

Limitations of section 5202.

(Opinion of Counsel, Page 680, December, 1916, Bulletin.)

**General
summary.**

By way of general summary it may be said:

(1) A member bank may not accept bills to a greater amount than 50% of its capital and surplus (unless the Federal Reserve Board has authorized it to accept 100%);

(2) The amount of domestic bills accepted shall in no event exceed 50% of capital and surplus;

(3) Acceptances purchased by the accepting bank are exempt from the above limitations.

Bank Acceptances Executed to Furnish Dollar Exchange

CHARACTER

Statutory Provisions

“Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months’ sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. . . .”

Acceptances
for dollar
exchange.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange shall first make an application to the Federal Reserve Board setting forth the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

Application for
permission
to accept.

If the Federal Reserve Board should determine that the usages of trade in such countries, dependencies, or possessions require the granting of the

Conditions
of approval.

acceptance facilities applied for, it will notify the applying bank of its approval and will also publish in the Federal Reserve Bulletin the name or names of those countries, dependencies, or possessions in which banks or bankers are authorized to draw on member banks whose applications have been approved for the purpose of furnishing dollar exchange.

The Federal Reserve Board reserves the right to modify or on 90 days' notice to revoke its approval either as to any particular member bank or as to any foreign country or dependency or insular possession of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing dollar exchange.

(Regulations of Federal Reserve Board, Regulation C, Series of 1917, B, II.)

Announcements of Federal Reserve Board

**Purpose
of law.**

The purpose of this act and the regulation made pursuant thereto was to enable the American banks to provide dollar exchange in countries where the check is not the current means of remittance in payment of foreign debts, but where the three months' bankers' draft is generally used for that purpose.

(Announcement of Federal Reserve Board, Page 665, December, 1916, Bulletin.)

**Countries whose
trade usages do
not require such
acceptances.**

The Board is informed that the bankers' custom of selling three months' drafts in preference to checks originated in countries where the mail connections were irregular and the foreign-exchange market was a limited one, and where it would have been difficult for the drawing banker to be certain that he could find a cover against the checks drawn by him in time to forward it by the same mail, whereas, in drawing a three months' draft, he would feel assured of being able to forward remittances before his obligation fell due. Such conditions do

not exist in relations between England and France and the United States.

(Announcement of Federal Reserve Board, Page 665, December, 1916, Bulletin.)

Reserving the right to modify or revoke its approval on 90 days' notice, the Board has decided to permit member banks to accept foreign drafts drawn upon them by banks or bankers in the following countries: Porto Rico, Santo Domingo, Costa Rica, Peru, Chile, Brazil, Venezuela, Argentina, and Bolivia.

Countries whose trade usages warrant such acceptances.

It is understood that such drafts are to be drawn for the purpose of furnishing dollar exchange as required by the usages and trade in the respective countries.

(Announcement of Federal Reserve Board, Page 665, December, 1916, Bulletin.)

The following named countries have been added to the above list: Colombia, Nicaragua, Ecuador, Trinidad, and Uruguay.

MATURITY

Statutory Provisions

Member banks may accept drafts drawn to furnish dollar exchange "having not more than three months' sight to run, exclusive of days of grace. . . ."

Maturity not to exceed three months.

(Federal Reserve Act, Section 13.)

AMOUNT MEMBER BANK MAY ACCEPT FOR ONE INTEREST

Statutory Provisions

"No member bank shall accept such drafts or bills of exchange referred to in this paragraph for

Ten per cent limit.

any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security. . . .”

(Federal Reserve Act, Section 13.)

AGGREGATE AMOUNT MEMBER BANK MAY ACCEPT

Statutory Provisions

**Fifty per
cent limit.**

“No member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.”

(Federal Reserve Act, Section 13.)

Opinions and Rulings

**Separate limits
on the two
classes of
acceptances.**

“The 50 per cent limit imposed upon the amount of drafts which a member bank may accept for the purpose of furnishing dollar exchange is separate and distinct from and not included in the limits imposed by section 13 upon the amount of drafts or bills of exchange drawn against the shipment of goods or against warehouse receipts covering readily marketable staples, which a member bank may accept.”

Member banks may therefore accept such bills even though their acceptances for other purposes aggregate 50% (or 100%) of capital and surplus.

(Opinion of Counsel, Page 528, July, 1917, Bulletin.)

**Section 5202
not applicable.**

The limitations imposed by section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.

(Opinion of Counsel, Page 680, December, 1916, Bulletin.)

Bank Acceptances Based on Domestic Shipments of Goods

CHARACTER

Statutory Provisions

"Any member bank may accept drafts drawn upon it . . . which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance. . . ."

Acceptances
in domestic
trade.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Shipping Documents.

Under the provision of section 13, which authorizes any member bank to accept drafts based upon domestic shipments of goods, provided shipping documents conveying or securing title are attached, such documents must be made out or indorsed so as to convey or secure title to the accepting bank.

Character
of documents.

(Opinion of Counsel, Page 198, March, 1918, Bulletin.)

A provision of section 13 which authorizes any member bank to accept drafts based upon the domestic shipment of goods, provided shipping documents are "attached," should not be construed so as to require that the documents be physically fastened to the draft. It is sufficient if the accepting bank has possession of the documents at the time of acceptance. If placed in possession of the bank's agent and under control of the bank, such documents could clearly be considered as in its possession.

Documents not
required to
be physically
attached.

(Opinion of Counsel, Page 765, October, 1917, Bulletin.)

Shipment from
principal
to agent.

Maturity.

Eligibility for
acceptance not
dependent on
security alone.

Release of
shipping
documents.

Transaction Need Not Involve Sale of Goods.

A member bank may properly accept a draft drawn against the shipment of goods from a corporation to its agent or branch even though no sale of the goods is involved in the transaction.

In any case, where a draft is drawn against a shipment of goods in a transaction which does not involve the sale of those goods, the maturity of the draft should approximate the duration of their transit. In such a case the law contemplates that the acceptance of the draft should be for the purpose of financing the shipment, and that it should not be the means of furnishing a credit for any other purpose.

(Informal Ruling, Page 690, September, 1917, Bulletin.)

Acceptance Must Arise Out of Actual Transaction.

A draft drawn by the purchaser of the goods against a national bank is not eligible for acceptance by that bank merely because it is secured by a bill of lading covering the goods bought.

The law contemplates some actual connection between the acceptance of the draft and the transaction involving the sale and shipment of the goods—that is, it was evidently intended that the draft should be drawn to finance that transaction. If a seller ships goods and mails the bill of lading to the purchaser and on arrival of the bill of lading the purchaser draws on his own bank, attaching the bill of lading as security, and offers it for acceptance, the transaction is merely a straight loan to the drawer secured by a bill of lading. As such it would not come within the spirit of the provisions of section 13.

(Opinion of Counsel, Page 380, May, 1917, Bulletin.)

Retention or Release of Documents against Acceptance.

Question is whether it is necessary, where a domestic acceptance is based upon a bill of lading, that the bank retain the bill of lading or other collateral

during the life of the acceptance, or may the bank release the bill of lading after acceptance. Also, whether the same rule will apply in case the acceptance is secured by a warehouse receipt.

Inasmuch as the statute merely requires the accepting bank to be secured in domestic transactions by shipping documents or warehouse receipts at the time of acceptance, the bank would no doubt have the right, if it became necessary to do so, to release either the shipping document or the warehouse receipt, provided the draft or drafts accepted for one person did not exceed 10 per cent of the capital and surplus of the accepting bank. This is a question, however, which should be determined by the bank itself.

It is no doubt necessary in some instances for the bank to release the shipping documents under some agreement with its customer in order that the transaction may be consummated. There would seem to be much less reason for releasing the warehouse receipts, and the banks might very properly adopt the rule not to release warehouse receipts other than in exceptional cases. In any event, this is purely a matter of agreement as between the bank and its customers. The Federal reserve bank in rediscounting such acceptances may reasonably take into consideration the question whether or not they are secured or unsecured at the time they are offered for rediscount.

**Release of
warehouse
receipts.**

(Informal Ruling, Page 634, July, 1918, Bulletin.)

MATURITY

Statutory Provisions

Any member bank may accept such drafts drawn upon it, "having not more than six months' sight to run, exclusive of days of grace."

**Maturity not to
exceed six months.**

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Duration of Letters of Credit.

Credit agreement
for more than
six months.

While a letter of credit or credit agreement may be lawfully made by a national bank which will extend by its terms for a period exceeding six months, the agreement must not be of such a character as will impose upon the holders of the drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft.

(Informal Ruling, Page 269, September, 1915, Bulletin.)

Syndicate accept-
ance credits.

For statement of policy of Federal Reserve Board with regard to syndicate acceptance credits having a duration of several years, see "Syndicate Acceptance Credits," pages 14-15, above.

AMOUNT BANK MAY ACCEPT FOR ONE INTEREST

Fifty per
cent limit.

See, under "Bank Acceptances Based on Imports and Exports," pages 23-25, above.

AGGREGATE AMOUNT BANK MAY ACCEPT

Statutory Provisions

Acceptances up
to 100 per cent.

"No bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus:

"Provided, however, that the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills

to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus:*

“Provided, further, that the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.”

Domestic acceptances not to exceed 50 per cent.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

When a member bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by section 13.

Purchase of bank's own acceptances.

(Opinion of Counsel, Page 397, August, 1916, Bulletin. See also “Purchase by National Bank of Its Own Acceptances,” pages 45-46, below.)

The limitations imposed by section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.

Section 5202 does not apply to acceptances.

(Opinion of Counsel, Page 680, December, 1916, Bulletin.)

*For regulations governing acceptance of domestic and foreign drafts up to an aggregate of 100 per cent of bank's capital and surplus, see “Bank Acceptances Based on Imports and Exports,” pages 26-28, above.

Bank Acceptances Secured by Warehouse Receipts

CHARACTER

Statutory Provisions

“Any member bank may accept drafts or bills of exchange drawn upon it . . . which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.”

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Eligible Security.

Warehouse receipts
must be issued by
independent
warehouses.

Warehouse receipts offered as security for bills accepted by member banks must be issued by warehouses which are independent of the borrower.

Where a corporation is formed as a subterfuge for the purpose of evading the spirit of the Board's ruling, this fact should be taken into consideration by a member bank accepting the bill and by the Federal reserve bank to which it is offered for discount.

If the borrower exercises such control over the corporation issuing the warehouse receipt as to give him control over the goods in storage, the purpose of requiring a receipt of the independent warehouseman would be defeated. The corporation issuing such receipt must be organized in good faith as an independent corporation and its affairs must

be administered by duly authorized officers and agents independent of the borrower.

(Informal Ruling, Page 31, January, 1918, Bulletin; see also Informal Ruling, Page 30, January, 1917, Bulletin.)

The requirements of the Board appear to have been met where a separate corporation has been created and the warehouse receipts are issued by that corporation and not by the borrower. However, where both corporations have practically the same officers, the manager of the warehouse appointed to execute the receipts should not be an employee of the borrowing company, as the Board requires that the receipts should be issued by a company independent of the borrower, and this requirement should be met in substance as well as in form.

Relation between
borrower and ware-
house corporation.

(Informal Ruling, Page 862, September, 1918, Bulletin.)

A borrowing corporation takes receipts for goods and materials stored in a warehouse controlled by a separate corporation engaged solely in the warehouse business, the entire stock of which is owned by the prospective borrower.

If a representative of the accepting bank is given control of the warehouse under a proper resolution of the directors of the warehouse corporation, the fact that the stock of the corporation is owned by the borrower should not prevent the acceptance of drafts secured by the warehouse receipts.

Control of
warehouse by
acceptors'
representative.

It should be agreed, however, that if by any future action of the warehouse corporation an attempt is made to exercise control over the warehouse, the representative of the acceptor should have the right to move the goods and to place them in storage elsewhere at the expense of the warehouse corporation.

(Informal Ruling, Page 862, September, 1918, Bulletin.)

A canned goods concern proposes to place part of its readily marketable goods and materials in

Warehouse receipts
issued by lessee.

storage with a lessee of part of its premises. The lessee is then to issue warehouse receipts to the owner of the goods, which receipts are to be used as security for drafts drawn against and accepted by a member bank.

If the premises in question are actually turned over to the lessee under a bona fide lease, the lessee being independent of the borrower and having entire custody and control of the goods, there would seem to be no objection to a member bank accepting drafts against the security of warehouse receipts issued by such lessee. It should, however, be expressly understood and agreed that the borrower shall not have access to the premises except with the permission of the lessee and that he shall exercise no control of any sort over the goods against which warehouse receipts are issued. The warehouse receipts must, of course, be in form to properly convey and secure title to the bank.

(Informal Ruling, Page 634, July, 1918, Bulletin.)

Receipt of custodian of wool as warehouse receipt.

It being understood that wool is stored in buildings under control of custodian entirely independent of borrower, custodian's certificate or receipt, if issued in proper form to convey or secure title, may be treated as a warehouse receipt within the meaning of section 13 of the Federal Reserve Act and acceptance of member bank under such conditions would be eligible for rediscount.

(Informal Ruling, Page 636, July, 1918, Bulletin.)

Acceptance of drafts against sugar in bond.

It is the understanding of this office that sugar referred to is placed in bond under transit entry and warehouse receipt issued by collector in negotiable form, but sugar can not be withdrawn for domestic sale or consumption without special permission of Treasury Department. Board is of opinion that member banks may legally accept

drafts drawn against security of such warehouse receipt properly assigned.

(Informal Ruling, Page 520, June, 1918, Bulletin.)

Ineligible Security.

Drafts or bills of exchange drawn in domestic transactions against a national bank cannot, under authority of section 13, be accepted when secured by a chattel mortgage on cattle but only when accompanied by shipping documents or when secured by a warehouse receipt or other similar document conveying or securing title to readily marketable staples. **Chattel mortgages.**

While cattle may be treated as readily marketable staples, a chattel mortgage is not considered a document similar to a warehouse receipt since the borrower retains the possession of the goods and conveys to the bank only the legal title.

(Informal Ruling, Page 309, April, 1918, Bulletin.)

A national bank is not authorized to accept a draft secured by collateral notes which are in turn secured by chattel mortgages on cattle. **Collateral notes secured by chattel mortgages.**

(Informal Ruling, Page 690, September, 1917, Bulletin.)

Member banks are not authorized to accept drafts of a cattle-loan company secured by notes of the owner of the cattle, although such notes may be secured by a chattel mortgage executed by the owner of the cattle to the cattle-loan company and the notes and chattel mortgage accompany the draft at the time of acceptance.

(Opinion of Counsel, Page 871, September, 1918, Bulletin.)

A bill of sale is not a receipt similar to a warehouse or terminal receipt; it is merely in substance a chattel mortgage to goods in the hands of the drawer and not a receipt for goods sold in the hands of some third party "independent of the borrower." **Bills of sale.**

(Opinion of Counsel, Page 684, December, 1916, Bulletin.)

**Security not
specified.**

The acceptance of a draft by a member bank against an acceptance agreement which purports to assign to the bank certain collateral security, but which does not specifically mention any security as assigned, is an ordinary accommodation acceptance, and is not authorized by law.

(Opinion of Counsel, Page 311, April, 1918, Bulletin.)

Substitution of Warehouse Receipts.**Substitution.**

It is held that there is no objection to permitting mills to substitute other warehouse receipts for cotton receipts during the life of an acceptance.

(Informal Ruling, Page 30, January, 1917, Bulletin.)

For a ruling governing the release of warehouse receipts after acceptance, see page 35, above.

MATURITY

See, under "Bank Acceptances Based on Domestic Shipments of Goods," pages 35-36, above.

**AMOUNT BANK MAY ACCEPT FOR
ONE INTEREST**

See, under "Bank Acceptances Based on Imports and Exports," pages 23-25, above.

**AGGREGATE AMOUNT BANK
MAY ACCEPT**

See, under "Bank Acceptances Based on Domestic Shipments of Goods," pages 36-37, above.

Investment in Acceptances by Member Banks

Statutory Provisions

"The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed ten per centum of the amount of the capital stock of such association, actually paid in and unimpaired, and ten per centum of its unimpaired surplus fund: Provided, however, that (1) the discount of bills of exchange drawn in good faith against actually existing values, (2) the discount of commercial or business paper actually owned by the person, company, corporation, or firm, negotiating the same, and (3) the purchase or discount of any note or notes secured by not less than a like face amount of bonds of the United States issued since April 24, 1917, or certificates of indebtedness of the United States, shall not be considered as money borrowed within the meaning of this section; but the total liabilities to any association, of any person, or of any company, corporation, or firm, upon any note or notes purchased or discounted by such association and secured by such bonds or certificates of indebtedness, shall not exceed (except to the extent permitted by rules and regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury) ten per centum of such capital stock and surplus fund of such association."

Ten per cent limit on liability of any one interest to a national bank.

Exception of discount of bills of exchange and business paper.

Paper secured by United States obligations.

(U. S. Revised Statutes, Section 5200, as amended September 24, 1918.)

Opinions and Rulings

Purchase or Discount of Acceptances of Other Banks.

"Bills of exchange" include bank acceptances.

"Bills of exchange" may be taken as including acceptances, since a bill does not lose its characteristics as such when accepted by the drawee.

(Opinion of Counsel, Page 195, March, 1917, Bulletin.)

Bills discounted before acceptance.

A bill of exchange discounted before acceptance may be said to be drawn against actually existing value . . . only when it is accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold.

(Opinion of Counsel, Page 195, March, 1917, Bulletin.)

Secured by shipping documents or pledge of goods.

A bill secured by shipping documents, or by the pledge of goods actually sold, might be discounted by a member bank before acceptance without being subject to the limitations imposed by section 5200, since this would constitute a bill drawn in good faith against actually existing value.

(Opinion of Counsel, Page 683, December, 1916, Bulletin.)

Bills discounted after acceptance.

If the bill is discounted after acceptance it may be treated as drawn against existing values if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. There must be reasonable grounds to believe at the time the bill is drawn that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

(Opinion of Counsel, Page 195, March, 1917, Bulletin.)

Acceptance discounted after removal of attached documents.

When such bill has been accepted by the drawee and the documents attached have been removed, though the direct obligation of the drawee to pay such bill at maturity may be said to be substituted for the "actual value" against which the bill was

originally drawn, nevertheless, when discounted by a bona fide owner for value, its discount would not be subject to the limitations of section 5200, since it would still come within the classification of "commercial or business paper actually owned by the person negotiating the same."

Should the drawee who accepts the bill, however, attempt to discount it with a member bank it would be subject to the limitations of section 5200, since in that case the party primarily liable would in effect borrow money from the bank on his own obligation.

(Opinion of Counsel, Page 683, December, 1916, Bulletin.)

The Board finds it necessary to adhere to its established policy of not making any general ruling on the question of how much a bank may invest in any particular security. It held, however, that if a firm is a bona fide owner for value of the acceptances of any particular institution and such acceptances are sold to or discounted with a member bank, the acceptances could no doubt be treated as commercial or business paper actually owned by the party negotiating them and would therefore be excepted from the limitations of section 5200, Revised Statutes. Ruling rests upon the fact that paper is commercial or business paper actually owned by the person negotiating it.

Discount of
acceptances as
business paper.

(Informal Ruling, Page 678, December, 1916, Bulletin.)

Purchase by National Bank of Its Own Acceptances.

A member bank may legally purchase its own acceptances, but such a transaction is equivalent to a loan or advance to the customer for whom the acceptance was made and the liability of such customer becomes subject to the limitations of section 5200, Revised Statutes.

Bank may
purchase its
own acceptances.

(Opinion of Counsel, Page 680, December, 1916, Bulletin.)

**Exemption from
limitations of
Section 13.**

When a bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by section 13.

(Opinion of Counsel, Page 397, August, 1916, Bulletin.)

**Reissuance of
acceptances.**

While the Board has ruled that when a bank buys its own acceptances they are to be recorded as loans subject to the limitations of section 5200, the right of the bank to resell or reissue the acceptance is, in the opinion of counsel, fully recognized by the authorities, and where this is done they may be treated as acceptances outstanding and not as loans.

(Informal Ruling, Page 691, September, 1917, Bulletin.)

**Rediscount of
such acceptances.**

An acceptance which has been purchased by the accepting bank and subsequently rediscounted with its Federal Reserve Bank is not subject to the limitations of section 5200 of the Revised Statutes.

(Opinion of Counsel, Page 696, September, 1917, Bulletin.)

PART II.

Rediscounts
with
Federal Reserve
Banks



PART II.

Rediscounts with Federal Reserve Banks

General Statutory Provisions

Member banks of the Federal Reserve System are authorized to rediscount notes, drafts, bills of exchange, and bank acceptances with Federal reserve banks under the following provisions of the Federal Reserve Act:

“Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount; but such definition shall not include notes,

Notes, drafts, and bills of exchange.

Commercial paper.

Agricultural and commodity paper.

Ineligible paper.

Maturity of
eligible paper.

Amount rediscount-
able by one bank
bearing signature
of any one interest.

Bank acceptances
eligible for
rediscount.

Rediscounts for
member State banks.

drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: Provided, that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank, shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank."*

(Federal Reserve Act, Section 13.)

"No Federal reserve bank shall be permitted to discount for any [member] State bank or trust company notes, drafts, or bills of exchange of any

* For kinds of acceptances eligible for rediscount under this section, see Part I, "General Statutory Provisions," pages 11-12, above.

one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Conditions.

(Federal Reserve Act, Section 9.)

"No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board."

Procuring discounts for nonmembers.

(Federal Reserve Act, Section 19.)

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

Subject to regulations of Federal Reserve Board.

(Federal Reserve Act, Section 13.)

"The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations

Security of War Finance Corporation bonds.

of member banks secured by . . . bonds of the [War Finance] Corporation and to rediscount eligible paper secured by such bonds and indorsed by a member bank."

(War Finance Corporation Act, Section 13.)

General Regulations of Federal Reserve Board

SUMMARY OF STATUTORY PROVISIONS

Any Federal reserve bank may discount for any of its member banks any note, draft, or bill of exchange provided:

(a) It has a maturity at the time of discount of not more than 90 days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace; **Maturity.**

(b) It arose out of actual commercial transactions; that is, it must be a note, draft, or bill of exchange which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes; **Commercial character.**

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States; **Finance paper ineligible.**

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank, shall at no time exceed ten per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of **Ten per cent limit.**

exchange drawn in good faith against actually existing values;

Indorsement.

(e) It is indorsed by a member bank;

(f) It conforms to all applicable provisions of this regulation.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.)

ELIGIBILITY OF NOTES, DRAFTS, AND BILLS OF EXCHANGE

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal reserve bank, has determined that:

Commercial paper.

(a) It must be a note, draft, or bill of exchange the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods* in one or more of the steps of the process of production, manufacture, or distribution;

Finance paper ineligible.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery;

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character;

Collateral security.

(d) It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, II.)

*When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

APPLICATIONS FOR REDISCOUNT

All applications for the rediscount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal reserve bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued for one or more of the purposes mentioned in (a), above. Certificate of member bank.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, III.)

Rediscount of Promissory Notes

DEFINITION OF NOTE

A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, IV.)

ELIGIBLE CLASSES OF NOTES

Statutory Provisions

Commercial paper.

Eligible notes are defined in the laws as follows:

**Agricultural and
commodity paper.**

“Notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount; [or] . . . notes, drafts, or bills . . . issued or drawn for the purpose of carrying or

**Paper based on
United States
obligations.**

trading in . . . bonds and notes of the Government of the United States."

(Federal Reserve Act, Section 13.)

"The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by . . . bonds of the [War Finance] Corporation and to rediscount eligible paper secured by such bonds and endorsed by a member bank."

Paper based on bonds of War Finance Corporation.

(War Finance Corporation Act, Section 13.)

Regulations of Federal Reserve Board

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal reserve bank, has determined that:

It must be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods* in one or more of the steps of the process of production, manufacture, or distribution;

Commercial paper.

The paper may be secured by the pledge of goods or collateral provided it is otherwise eligible.

Collateral notes.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, II.)

Opinions and Rulings

Federal reserve banks do not make loans directly to individuals, but rediscount the paper of

Loans to individuals.

* When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

member banks, which include all national banks and such State banks as may have joined the Federal Reserve System.

(Informal Ruling, Page 272, June, 1916, Bulletin.)

Notes Based on Production and Distribution of Goods.

Paper of waterworks company.

The 90-day paper of a waterworks company, the proceeds of which have been or are to be used to provide funds for payroll, purchases of coal, etc., is eligible for rediscount by a Federal reserve bank if the paper is otherwise in conformity with the law and the provisions of the Board's regulations.

(Informal Ruling, Page 527, July, 1917, Bulletin.)

Farmers' notes.

Farmers' notes, the proceeds of which are used for tilling farms or for draining land already in use as farm land, should be classified as agricultural paper, and are eligible for rediscount.

(Informal Ruling, Page 743, August, 1918, Bulletin.)

Assignment of open accounts ineligible.

The assignment of an open account is not negotiable paper and is not eligible for rediscount by a Federal reserve bank under the terms of section 13 of the Federal Reserve Act.

(Opinion of Counsel, Page 227, May, 1916, Bulletin.)

Discount of renewal notes.

Renewals differ, and banking judgment determines the merits of each particular case. Self-liquidating paper, even though the transaction which gives rise to it does not liquidate itself within the 90-day maturity, might be discounted even though it appears to be renewal paper. Banks should not enter into an agreement for a renewal. Care should be exercised in examining such paper and the transactions which give rise to it, but mechanical rules should not be allowed to take the place of discriminating banking judgment.

(Informal Ruling, Page 74, June, 1915, Bulletin.)

Secured Notes.

Under section 13 of the Federal Reserve Act the eligibility of a note for rediscount is determined by the use of the funds derived from the original negotiation of the note. The collateral security of the note may indicate its use, but the form of collateral is otherwise immaterial. In other words, a note might be secured by railroad stocks and bonds, but the proceeds might be used for an agricultural, industrial, or a commercial purpose, in which event the note would be eligible for rediscount, although it would not be if the proceeds were used to purchase or carry the railroad stocks and bonds.

Eligibility tested by use of funds.

(Opinion of Counsel, Page 954, December, 1917, Bulletin.)

Notes secured by collateral, the proceeds of which have been used or are to be used for commercial purposes, and which otherwise comply with the regulations, are eligible for rediscount.

Collateral notes for commercial purposes.

The fact that commercial paper has the additional security of collateral in no way affects its eligibility for rediscount.

(Informal Ruling, Page 268, September, 1915, Bulletin.)

A note, even though secured by eligible paper, is not itself eligible for rediscount unless issued for an agricultural, commercial, or industrial purpose.

Eligible security not sufficient.

(Informal Ruling, Page 690, September, 1917, Bulletin.)

The note of a manufacturer secured by his bills receivable is desirable paper, and should certainly not be debarred as a collateral trust note.

Collateral of bills receivable.

(Informal Ruling, Page 127, July, 1915, Bulletin.)

A note, draft, or bill of exchange drawn for commercial purposes and otherwise eligible for rediscount under the provisions of section 13 of the Federal Reserve Act is not rendered ineligible merely because it is secured by a mortgage on real estate.

Collateral of mortgages.

(Opinion of Counsel, Page 458, June, 1917, Bulletin.)

Rediscount for insolvent bank when reopened.

The Board upholds a Federal reserve bank in declining to give assurance to the receiver of an insolvent member bank that the Federal reserve bank will upon the reopening of the insolvent bank rediscount eligible paper freely, without requiring the indorsement of directors or other additional security. Offerings should be considered upon their merits.

(Informal Ruling, Page 66, February, 1916, Bulletin.)

Notes secured by food products.

Paper secured by staple perishable food products such as butter, cheese, eggs, poultry, frozen fish, etc., carried for seasonable periods in cold storage on negotiable warehouse receipts, is eligible, if offered with the indorsement of a member bank at the usual rate for 90-day commercial paper.

(Informal Ruling, Page 30, January, 1918, Bulletin.)

Pig iron security.

The note of a furnace company secured by pig iron manufactured by the company on contract for delivery is eligible for rediscount. While this principle generally holds good, each case should be carefully scrutinized that the collateral may be readily marketable goods.

(Informal Ruling, Page 127, July, 1915, Bulletin.)

Notes Based on United States Obligations and War Finance Corporation Bonds.

Authority.

The statement of law that the definition of eligible paper shall not include notes, drafts, or bills of exchange drawn for the purpose of "carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States," is equivalent to an affirmative declaration that a Federal reserve bank may discount a note, draft, or bill of exchange indorsed by a member bank which is issued or drawn for the purpose of carrying or trading in bonds or notes of the United States.

(Informal Ruling, Page 158, March, 1917, Bulletin.)

Any member bank which has loaned money to any of its customers for the purpose of carrying or trading in bonds or notes of the United States may rediscount with its Federal reserve bank the bill or note of its customer, provided such bill or note

(a) Has a maturity at the time of discount of not more than ninety days, exclusive of days of grace; and

Conditions of eligibility.

(b) Has the indorsement of the member bank.

Such bill or note, however, need not necessarily be secured and need not be drawn for a commercial purpose other than for the purpose of carrying or trading in notes or bonds of the United States.

(Informal Ruling, Page 158, March, 1917, Bulletin.)

A member bank acting through another member bank may obtain the discount of its paper secured by Government bonds for a period as long as 90 days, although a member bank acting alone may not tender its collateral note to the Federal reserve bank, which runs for more than 15 days.

Maturity in relation to eligibility.

It may be proper in this connection to consider questions of fact; but in case a country bank which has regular dealings with a large bank in a city sends its note secured by Government bonds to that bank, the Board would regard the note as eligible for rediscount by the city bank.

(Informal Ruling, Page 863, September, 1918, Bulletin.)

If the proceeds of a note have been used or are to be used to carry or trade in United States obligations, the note, if acquired in good faith, should be eligible for rediscount with the indorsement of the member bank, whether it is executed by a member or by a nonmember bank.

Notes of nonmember banks.

(Informal Ruling, Page 743, August, 1918, Bulletin.)

INELIGIBLE CLASSES OF NOTES

Statutory Provisions

Security paper.

"Such definition [of paper eligible for rediscount] shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the United States."

(Federal Reserve Act, Section 13.)

Regulations of the Federal Reserve Board

Notes for permanent, fixed, or speculative investments.

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for investments of a purely speculative character.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, II.)

Opinions and Rulings

Renewals and Extensions.

Discount of renewal notes.

Renewals differ, and banking judgment determines the merits of each particular case. Those providing working capital or to finance fixed investments are not eligible for rediscount. Banks should not enter into an agreement for a renewal.

(Informal Ruling, Page 74, June, 1915, Bulletin.)

Extension.

A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board.

(Opinion of Counsel, Page 870, September, 1918, Bulletin.)

Financial Paper.

A note executed by Bank "A," and discounted by Bank "B," the proceeds of which were used to replace funds withdrawn by customers to purchase Liberty Bonds, is not eligible for rediscount by a Federal reserve bank, since the proceeds were not used for an agricultural, industrial, or commercial purpose, or for the purchase of notes or bonds of the United States.

Notes to replace funds withdrawn.

(Opinion of Counsel, Page 954, December, 1917, Bulletin.)

"Notes, drafts, and bills of exchange which are secured by war savings stamps are ineligible for rediscount with a Federal reserve bank."

Paper secured by war savings stamps.

Counsel suggests that war savings stamps are not bonds or notes of the United States but in effect only receipts for payment on account of non-negotiable evidences of indebtedness (war savings certificates).

(Opinion of Counsel, Page 637, July, 1918, Bulletin.)

The note of an acceptance house or broker, secured by acceptances eligible for rediscount at a Federal reserve bank, is not eligible for rediscount.

Notes of acceptance house or broker.

The note of the acceptance house or broker can not be said to have been used for an industrial, agricultural, or commercial purpose, since the business of such acceptance house or broker is not such as to come within any of these classifications. The fact that the note is secured by eligible paper is immaterial if the proceeds are not used for one of the purposes named.

(Informal Ruling, Page 108, February, 1918, Bulletin.)

The note of a finance or credit company which is drawn either directly or indirectly to finance some industrial or commercial concern in the transaction of its business is not eligible for rediscount, even

Notes of finance companies.

though it may be secured by paper which is itself eligible for rediscount.

(Informal Ruling, Page 197, March, 1918, Bulletin.)

**Collateral
trust notes.**

The Board holds that collateral trust notes of so-called finance companies should not be accepted by Federal reserve banks for rediscount. Such a transaction is not a commercial one.

(Informal Ruling, Page 72, June, 1915, Bulletin.)

**Collateral of bills
receivable.**

The note of a manufacturer secured by his bills receivable is desirable paper, and should certainly not be debarred as a collateral trust note. When issued for the purpose of carrying collateral for a speculative purpose or collateral in the nature of stocks and bonds other than the securities of the United States, the note would not be eligible for rediscount.

(Informal Ruling, Page 127, July, 1915, Bulletin.)

Bills Payable with Collection Charges.

**Exchange and
collection charges
distinguished.**

"A bill made payable with 'collection charges' is not a negotiable instrument, though the Negotiable Instruments Law provides that an instrument payable 'with exchange' does not lose its negotiability."

Counsel suggests that the amount of exchange is usually ascertainable in advance while collection charges are not so ascertainable.

(Opinion of Counsel, Page 880, November, 1917, Bulletin.)

**Charges before and
after maturity.**

"While a bill containing a provision for payment of the costs of collection and attorney's fees, if it is dishonored at maturity, is a valid negotiable instrument, a bill drawn for a fixed sum 'with collection charges' is not a negotiable instrument unless it is so drawn as to show that no collection charges are to be included unless the bill is dishonored at maturity."

(Opinion of Counsel, Page 745, August, 1918, Bulletin.)

EVIDENCE OF ELIGIBILITY AND REQUIREMENT OF STATEMENTS

Regulations of the Federal Reserve Board

A Federal reserve bank must be satisfied by reference to the note or otherwise that it is eligible for rediscount. Compliance of a note [with the requirements of eligibility] . . . may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. The member bank shall certify in its application whether the note offered for rediscount has been discounted for a depositor or another member bank or whether it has been purchased from a nondepositor. It must also certify whether a financial statement of the borrower is on file.

Evidence of eligibility.

Such financial statements must be on file with respect to all notes offered for rediscount which have been purchased from sources other than a depositor or a member bank. With respect to any other note offered for rediscount, if no statement is on file, a Federal reserve bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. It is authorized to waive the requirement of a statement with respect to any note discounted by a member bank for a depositor or another member bank:

Financial statements.

Waiver of statement.

(1) If it is secured by a warehouse, terminal, or other similar receipt covering goods in storage;

(2) If the aggregate of obligations of the borrower rediscounted and offered for rediscount at the Federal reserve bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and does not exceed \$5,000.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A. IV.)

Opinions and Rulings

Cotton-mill paper.

Banks are authorized to discount cotton-mill paper indorsed by member banks where general conditions are satisfactory and statement of cotton mill shows that plant is not mortgaged and that the deficiency between capital and plant account does not amount to more than \$5 per spindle.

(Informal Ruling, Page 73, June, 1915, Bulletin.)

Standing timber.

The Board does not regard it as safe policy for Federal reserve banks to treat timber standing upon tracts of land as quick assets, similar to manufactured goods in the hands of the manufacturer or jobber.

(Informal Ruling, Page 126, July, 1915, Bulletin.)

Unmined minerals.

Unmined minerals are not regarded as quick assets.

(Informal Ruling, Page 126, July, 1915, Bulletin.)

MATURITY OF NOTES ELIGIBLE FOR REDISCOUNT

Statutory Provisions

Commercial paper.

“Notes, drafts, and bills admitted to discount under terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: Provided, that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.”

Agricultural or live stock paper.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

Any Federal reserve bank may discount for any of its member banks any note, draft, or bill of exchange provided it has a maturity at the time of discount of not more than ninety days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

Maturity of 90 days.

Maturity of six months.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.)

Opinions and Rulings

A bill payable "on or before" a certain date is negotiable paper and, if otherwise in conformity with the provisions of law and of the Federal Reserve Act, is eligible for discount by a Federal reserve bank.

Notes payable "on or before."

(Informal Ruling, Page 394, August, 1916, Bulletin.)

A demand note or bill is not eligible under the provisions of the Act, since it is not in terms payable within the prescribed ninety days, but may, at the option of the holder, not be presented for payment until after that time.

Demand notes.

If the bill were altered so as to read "on or before ——— days from date, pay to the order of ourselves," etc., it would come within the terms of the law and would be eligible for rediscount.

(Informal Ruling, Page 378, May, 1917, Bulletin.)

A note made payable "on demand, and if no demand is made, then on ———," is eligible for rediscount by a Federal reserve bank, provided that the date to be filled in is not more than 90 days from the date of discount, and provided further it conforms to the other provisions of law and the regulations of the Board.

Notes payable before certain date.

(Informal Ruling, Page 527, July, 1917, Bulletin.)

Extension of time.

A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board.

(Opinion of Counsel, Page 870, September, 1918, Bulletin.)

**Direct loans and
rediscounts
distinguished.**

A member bank acting through another member bank may obtain the discount of its paper secured by Government bonds for a period as long as 90 days, although a member bank acting alone may not tender its collateral note to the Federal reserve bank, which runs for more than 15 days.

It may be proper in this connection to consider questions of fact—whether the transaction is in good faith or whether the two banks exchange courtesies merely for the purpose of having their notes discounted for 90 days instead of 15 days; but in case a country bank which has regular dealings with a large bank in a city sends its note secured by Government bonds to that bank, the Board would regard the note as eligible for rediscount by the city bank.

(Informal Ruling, Page 863, September, 1918, Bulletin.)

AMOUNT OF PAPER OF ONE INTEREST REDISCOUNTABLE FOR ONE MEMBER BANK

Statutory Provisions

Ten per cent limit.

“The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.”

Exception.

(Federal Reserve Act, Section 18.)

"No Federal reserve bank shall be permitted to discount for any [member] State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company; but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank."

Rediscounts
for member
State banks.

Conditions.

(Federal Reserve Act, Section 9.)

Regulations of Federal Reserve Board

"The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank, shall at no time exceed ten per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values."

Ten per cent limit.

Exception.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.)

Opinions and Rulings

Ten per cent limit.

A Federal reserve bank is not permitted to rediscount the paper of a customer of a member State bank if the customer is indebted to the member bank in an amount in excess of ten per cent of the capital and surplus of the member bank.

(Informal Ruling, Page 863, September, 1918, Bulletin.)

Paper of one maker or indorser.

If any particular paper presented by a member bank to a Federal reserve bank for rediscount, singly or added to the paper of the same makers or indorsers which the Federal reserve bank has already rediscounted for said member bank, amounts to a total of more than ten per cent of the unimpaired capital and surplus of that bank, the Federal reserve bank has no authority for such rediscount.

(Informal Ruling, Page 224, May, 1916, Bulletin.)

Not applicable to rediscounting bank.

In the opinion of the Board the limitations contained in section 13 of the Federal Reserve Act on the rediscount of paper bearing the signature or indorsement of any one borrower should not be held to refer to the indorsement of a nonmember bank on paper rediscounted with a member bank.

(Informal Ruling, Page 520, June, 1918, Bulletin.)

Paper of cotton broker.

A cotton broker who is a depositor of a bank finances cotton for various mills by giving to the bank his note secured by warehouse receipts of the mills indorsed in blank, for cotton stored in his name and properly insured, but sold to the mill for a specific amount to be paid at a specific time, as per sales note attached. The question arises whether such loans taken from one broker in excess of ten per cent of the capital and surplus of the bank would be an excess loan under the Federal Reserve Act, if the financing for each individual

mill and the accepted sales note held of said mill were not in excess of said ten per cent.

It is held that the transaction in form is merely a discount of single name negotiable paper secured by so many bales of cotton. Such notes would clearly come within the provisions of section 5200 of the Revised Statutes.*

The language of section 13 of the Federal Reserve Act is still more comprehensive and no Federal reserve bank could rediscount such notes bearing the name of one broker for an aggregate amount in excess of ten per cent of the capital and surplus of the member bank.

(Informal Ruling, Page 113, March, 1916, Bulletin.)

Relation of Section 5200, Revised Statutes,* to the Ten Per Cent Limit.

While a member bank may acquire commercial or business paper from the same person in excess of ten per cent of its unimpaired capital and surplus, its Federal reserve bank can not rediscount such paper bearing the signature or indorsement of the same person in excess of that amount.

Commercial or
business paper.

Section 13, Federal Reserve Act, does not amend section 5200, United States Revised Statutes.

(Opinion of Counsel, Page 274, June, 1916, Bulletin.)

A note or bill rediscounted in good faith by a member bank, which is no longer owned or held by the bank, need not be included as a liability of the maker to the bank within the meaning of section 5200, Revised Statutes. Notes or bills rediscounted under an agreement to repurchase, or which are merely credited to the account of the bank offering them for rediscount, are subject to the limitations of section 5200.

Rediscounted paper
not limited by
section 5200.

(Opinion of Counsel, Page 867, September, 1918. Bulletin.)

* For section 5200 see page 43, above.

Rediscount by State
member banks.

Where a State bank, which is a member of the Federal Reserve System, has loaned to one of its customers an amount equal to 30 per cent of its capital and surplus, and has rediscounted two-thirds of this amount with a correspondent bank, the remaining one-third is eligible for rediscount with its Federal reserve bank.

(Opinion of Counsel, Page 638, July, 1918, Bulletin.)

AGGREGATE AMOUNT REDISCOUNT- ABLE FOR ONE BANK

Statutory Provisions

Not limited by
section 5202.

"No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of . . . liabilities incurred under the provisions of the Federal Reserve Act."

(Section 5202, Revised Statutes, as amended by Section 13, Federal Reserve Act.)

Subject to regulations
of Federal Reserve
Board.

"The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Not limited by law.

The law places no limitation upon the amount of commercial paper which a member bank may rediscount with a Federal reserve bank, but leaves

this to the judgment of the officers of the Federal reserve bank.

(Informal Ruling, Page 457, September, 1916, Bulletin.)

Under section 5202, Revised Statutes, a national bank may not borrow as bills payable in excess of its capital stock. Under the Federal Reserve Act it may rediscount actual items of paper in its possession to any amount in the discretion of the Federal reserve bank of its district.

Discretion of Federal reserve bank.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

INDORSEMENT OF MEMBER BANKS

Statutory Provisions

“Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange.”

Indorsement.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

A simple written indorsement will be regarded as satisfactory and as coming within the terms of the law.

Indorsement is waiver.

(Informal Ruling, Page 524, October, 1916, Bulletin.)

If a note is otherwise eligible for rediscount, the fact that it bears a “without recourse” indorsement of a nonmember bank will not affect its eligibility.

Without recourse.

(Opinion of Counsel, Page 745, August, 1918, Bulletin.)

REDISCOUNT FOR NONMEMBER BANKS

Statutory Provisions

“No member bank shall act as the medium or agent of a nonmember bank in applying for or re-

Procuring rediscounts for nonmembers.

ceiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board."

(Federal Reserve Act, Section 19.)

Opinions and Rulings

Rediscount of paper
acquired from
nonmember banks.

Assuming that the paper offered by a member bank for rediscount is eligible under the regulations prescribed by the Board, it would be necessary in each case for the officers of the Federal reserve bank to determine whether or not the proceeds of such discount are to be used for the purpose of making a loan to a nonmember bank. If the money thus borrowed is to be re-lent to a nonmember bank, rediscount should not be accepted without the permission of the Federal Reserve Board. If, on the other hand, a member bank had in good faith acquired from a nonmember bank by rediscount notes which are eligible under the regulations of the Board for rediscount with the Federal reserve bank, and such notes were held as a part of the assets of the member bank, there would seem to be no objection to the Federal reserve bank's accepting such rediscounts, provided the officers are satisfied that the transaction is a bona fide transaction and that the member bank did not extend accommodation to the nonmember bank with a view to rediscounting notes so acquired with the Federal reserve bank.

This is one of the cases which must be left very largely to the judgment and discretion of the Federal reserve bank officers; and a determination must be reached by them on the facts of the case.

(Informal Ruling, Page 213, August, 1915, Bulletin.)

Rediscount of paper
indorsed by
nonmember bank.

In the opinion of the Board the limitations contained in section 13 of the Federal Reserve Act on the rediscount of paper bearing the signature or in-

dorsement of any one borrower should not be held to refer to the indorsement of a nonmember bank on paper rediscounted with a member bank.

It is true that in such case the nonmember bank is contingently liable if the paper is not paid at maturity, but the Board is inclined to the view that this language refers to paper bearing the signature or indorsement of borrowers or customers of the member bank and not to the indorsement of other banks. A nonmember bank could not, of course, obtain indirect accommodation from the Federal reserve bank through the medium or agency of a member bank except with the permission of the Federal Reserve Board, but if a member bank had acquired eligible paper in due course by rediscount from a nonmember bank the member bank should hardly be precluded from rediscounting this paper with the Federal reserve bank because it bears the indorsement of the nonmember bank.

(Informal Ruling, Page 520, June, 1918, Bulletin.)

Rediscount of Drafts and Trade Acceptances

DEFINITION OF DRAFT

Regulations of Federal Reserve Board

**Draft or bill
of exchange.**

A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, other than a banker . . . signed by the person giving it, requiring the person to whom it is addressed to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, V.)

Opinions and Rulings

**Extension
of time.**

A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board.

(Opinion of Counsel, Page 870, September, 1918, Bulletin.)

**Presentment
of bills for
acceptance.**

The drawer and indorser of a bill of exchange made payable on a date specified in the bill are not discharged by a failure to present for acceptance, unless the bill expressly provides that it must be presented for that purpose, or unless it is payable elsewhere than at the residence or place of business of the drawee.

(Opinion of Counsel, Page 608, November, 1916, Bulletin.)

**Acceptor not
affected by
waiver.**

The acceptor of a bill of exchange is the principal debtor. The law requires that notice of demand and protest be given to parties secondarily

liable in case of dishonor. This right to receive notice is a personal one which may be waived by the parties entitled thereto, that is, the drawer and indorser; but such waiver has no effect on the acceptor or principal debtor.

(Opinion of Counsel, Page 277, September, 1915, Bulletin.)

Negotiability.

The negotiability of a bill of exchange is not affected by provisions which waive demand, notice, and protest; which waive homestead exemption rights; and which provide for the costs of collection and attorney's fees.

Effect of
waivers.

(Opinion of Counsel, Page 226, May, 1916, Bulletin.)

A provision in a draft or bill of exchange that it is payable "with interest at the rate of — per cent per annum after maturity, if payment is delayed," does not affect the negotiability of the instrument.

Drafts payable
with interest.

(Opinion of Counsel, Page 200, March, 1917, Bulletin.)

A draft made "payable on arrival of car" is non-negotiable, not being payable at a determinable future time.

Drafts payable
on condition.

(Opinion of Counsel, Page 219, August, 1915, Bulletin.)

"A bill made payable with 'collection charges' is not a negotiable instrument, though the Negotiable Instruments Law provides that an instrument payable 'with exchange' does not lose its negotiability."

Exchange and
collection
charges.

Counsel suggests that the amount of exchange is usually ascertainable in advance while collection charges are not so ascertainable.

(Opinion of Counsel, Page 880, November, 1918, Bulletin.)

While a bill containing a provision for payment of the costs of collection and attorney's fees, if it is dishonored at maturity, is a valid negotiable instrument, a bill drawn for a fixed sum "with collection charges" is not a negotiable instrument unless it

Charges before
and after maturity.

is so drawn as to show that no collection charges are to be included unless the bill is dishonored at maturity.

(Opinion of Counsel, Page 745, August, 1918, Bulletin.)

**Drafts payable
to order of drawee.**

A bill made payable to the order of the drawee is not negotiable until the drawee as payee has indorsed it. When it has been accepted and indorsed by the drawee it is a valid negotiable instrument in the hands of a third party, and the drawer is not released, since the terms of his order have been specifically complied with.

(Opinion of Counsel, Page 110, February, 1918, Bulletin.)

DEFINITION OF TRADE ACCEPTANCE

Regulations of Federal Reserve Board

Trade acceptance.

A trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, V.)

Opinions and Rulings

**Acceptance
by drawee.**

A draft to be eligible as a trade acceptance must be accepted by the drawee and not by anyone else.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

**Place of payment
of acceptance.**

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill nonnegotiable.

(Opinion of Counsel, Page 289, April, 1917, Bulletin.)

**Discount for
payment at
maturity.**

A trade acceptance which consists of an order to pay a certain amount, which is the amount of the debt minus a discount for prompt payment at ma-

turity, or, if not paid at maturity, to pay a greater amount, which is the amount of the debt without any discount, is an order to pay a sum certain and is negotiable.

(Opinion of Counsel, Page 200, March, 1918, Bulletin.)

A trade acceptance providing for a fixed discount, if paid at a certain time before maturity, should not be approved for general use by the Federal Reserve Board.

Discount for prepayment.

(Opinion of Counsel, Page 871, September, 1918, Bulletin.)

On the basis of the facts submitted in this case, it is held that a 90-day sight draft drawn by a firm in Calcutta on a company in Boston and accepted by that firm, covering a transaction involving the transportation of merchandise from Calcutta to Honolulu, is a trade acceptance rather than a banker's acceptance.

Acceptance based on foreign shipments.

(Informal Ruling, Page 404, December, 1915, Bulletin.)

ELIGIBLE DRAFTS AND TRADE ACCEPTANCES

Statutory Provisions

Eligible paper is defined in the laws as follows:

"Notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; [or] . . . notes, drafts, or bills . . . issued

Commercial paper.

Agricultural and commodity paper.

Paper based on
United States
obligations.

or drawn for the purpose of carrying or trading in . . . bonds and notes of the Government of the United States.”

(Federal Reserve Act, Section 13.)

Paper based on
bonds of War
Finance Corporation.

“The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board . . . to rediscount eligible paper secured by . . . bonds [of the War Finance Corporation] and indorsed by a member bank.”

(War Finance Corporation Act, Section 13.)

Regulations of Federal Reserve Board

Conditions of
eligibility.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal reserve bank, has determined that:

Commercial
origin.

It must be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods* in one or more of the steps of the process of production, manufacture, or distribution;

It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, II.)

Opinions and Rulings

Based on retail
transactions.

A bill of exchange drawn by the seller of goods and accepted by the purchaser of those goods is a trade acceptance, regardless of whether or not the purchaser intends to resell the goods or to use them

* When used in this regulation the word “goods” shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

for his own purpose. Therefore, a retail dealer may finance the sale of his goods to a retail customer by means of the trade acceptance.

(Informal Ruling, Page 30, January, 1918, Bulletin.)

An acceptance drawn by a gas producing company on a gas distributing company and accepted by the latter in payment for gas sold and delivered is a trade acceptance, eligible for rediscount by a Federal reserve bank.

Based on sale and delivery of gas.

(Informal Ruling, Page 435, May, 1918, Bulletin.)

Regarding the use of trade acceptances in connection with the sale of coffee mills, etc., on an installment plan, if the purchaser is willing to accept a draft in advance of the delivery of the goods there would seem to be no reason why such an acceptance should not be treated on the same basis as a bill drawn and accepted after delivery of such goods.

Based on installment plan sales.

(Informal Ruling, Page 437, May, 1918, Bulletin.)

Drafts drawn for the purchase price of electrical goods, which include the cost of installation, may be treated as trade acceptances when such drafts are accepted by the purchaser.

Based on electrical installation.

(Informal Ruling, Page 310, April, 1918, Bulletin.)

A draft drawn by a lumber corporation upon a sales corporation which it and a number of other lumber concerns have organized will, when accepted, become a trade acceptance, even though the selling corporation is a stockholder of the sales corporation, provided the latter is organized in good faith and not merely to act as an agent for the purpose of evading the law.

Acceptances of sales corporations.

(Opinion of Counsel, Page 33, January, 1918, Bulletin.)

A bill drawn by a retail dealer on his retail customer to finance the sale of goods to that customer is a trade acceptance within the meaning of the Board's regulations, even though it is drawn after

Acceptances in liquidation of open accounts.

the purchaser has failed to remit promptly on an open account.

The Board is of the opinion, however, that the attempt to use a trade acceptance in this manner as a means of liquidating an otherwise slow account would involve considerable danger to the primary purposes of the trade acceptance movement and would subordinate the trade acceptance to the open account by suggesting it as a last resort for bad debts.

While, therefore, trade acceptances of this character should probably be considered eligible as a matter of law, nevertheless member banks and Federal reserve banks should be encouraged to discriminate against them as far as possible.

(Informal Ruling, Page 30, January, 1918, Bulletin.)

**Acceptances based
on advertising space.**

The Federal Reserve Board may properly rule that a draft or bill of exchange drawn by the seller on the purchaser of advertising space and accepted by such purchaser is a trade acceptance.

(Opinion of Counsel, Page 116, February, 1917, Bulletin.)

Conditions.

A draft or bill of exchange drawn by a publisher or other advertising agency on the purchaser of advertising space, and accepted by such purchaser, shall be considered a trade acceptance provided the advertisement on which the draft or bill is based is for the purpose of promoting or facilitating the production, manufacture, distribution, or sale of goods, whether merchandise or agricultural products, including live stock, and provided, further, that such advertisement is not illegal and is not for the purpose of promoting or facilitating any transaction which is prohibited by the laws of the state in which it is to be consummated.

(Informal Ruling, Page 114, February, 1917, Bulletin.)

Acceptances Based on Foreign Transactions.

The fact that importation or exportation is involved does not exclude the character of a trade acceptance, and trade acceptances originating through importation from foreign countries, which are indorsed by banks or bankers, may be taken within the range of the discount rates for bankers' acceptances.

Based on import transactions.

(Informal Ruling, Page 168, April, 1916, Bulletin.)

Bills drawn for the purpose of providing funds for the purchase and export of cross-ties and lumber to Cuba are eligible for rediscount if properly indorsed and otherwise conforming to the regulations of the Federal Reserve Board.

Based on purchase for export.

(Informal Ruling, Page 268, September, 1915, Bulletin.)

INELIGIBLE DRAFTS AND TRADE ACCEPTANCES

Statutory Provisions

"Such definition [of paper eligible for rediscount] shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the United States."

Security paper.

(Federal Reserve Act, Section 13.)

Regulations of the Federal Reserve Board

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

Notes for permanent, fixed, or speculative investments.

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for investments of a purely speculative character.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, II.)

Opinions and Rulings

Acceptances
based on future
purchases.

A bill, in order to be a trade acceptance, must arise out of the purchase of goods, and unless that purchase is either consummated or actually contracted for at the time the bill is drawn, it is doubtful whether it can properly be said that the obligation arises out of the purchase of goods.

(Informal Ruling, Page 378, May, 1917, Bulletin.)

Drafts to finance
capital requirements.

The Board's conception of the trade acceptance is that it is an instrument which carries upon its face the evidence of the commercial character of the transaction which gave it birth. The finance paper of the — Corporation issued against drafts drawn by it on dealers and placed in trust to secure such paper issued by it in the shape of notes or certificates gives no indication whatever as to the nature of the security, which may or may not be eligible paper.

It appears to the Board that the — Corporation by issuing notes of this character is really raising money for capital requirements for similar transactions in the future, and that the whole plan is in essence a finance operation rather than a commercial transaction.

(Informal Ruling, Page 109, February, 1918, Bulletin.)

Drafts in payment
of insurance
premiums.

A draft drawn by a casualty company against a policyholder for premiums could hardly be said to be a draft by the seller on the purchaser of goods sold and would not, in the opinion of the Board, come within the Board's present definition of a trade acceptance.

(Informal Ruling, Page 309, April, 1918, Bulletin.)

EVIDENCE OF ELIGIBILITY

Regulations of Federal Reserve Board

Character of
evidence.

A Federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibil-

ity of the draft or bill offered for rediscount, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, V.)

Opinions and Rulings

The fact that a land company has stamped a bill a trade acceptance and has signed such statement as "acceptor" does not in itself make it a trade acceptance. The bill was accepted by the bank and not by the land company and is therefore not eligible for purchase as a trade acceptance under the regulation which requires a bill to be accepted by the drawee.

Stamp "Trade Acceptance" has no value.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

MATURITY

Statutory Provisions.

"Notes, drafts, and bills admitted to discount under terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: Provided, that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board."

Commercial paper.

Agricultural or live stock paper.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

The draft or trade acceptance must have a "maturity at the time of discount of not more than

Maturity of ninety days.

**Maturity of
six months.**

ninety days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace."

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.)

Opinions and Rulings

**Drafts payable
on condition.**

A draft made "payable on arrival of car" is non-negotiable, not being payable at a determinable future time, and is therefore ineligible for rediscount by a Federal reserve bank.

(Opinion of Counsel, Page 219, August, 1915, Bulletin.)

**Drafts payable
"on or before"
certain date.**

Drafts payable "ninety days from date or before on five days after demand (i.e., on five days' notice) by the holder hereof" are negotiable and eligible for discount with a Federal reserve bank.

(Opinion of Counsel, Page 291, April, 1917, Bulletin.)

Demand drafts.

A demand note or bill is not eligible under the provisions of the Act, since it is not in terms payable within the prescribed ninety days, but, at the option of the holder, may not be presented for payment until after that time.

If the bill were altered so as to read "on or before — days from date, pay to the order of ourselves," etc., it would come within the terms of the law and would be eligible for rediscount.

(Informal Ruling, Page 378, May, 1917, Bulletin.)

Extension.

"A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board."

(Opinion of Counsel, Page 870, September, 1918, Bulletin.)

AMOUNT OF PAPER OF ONE INTEREST REDISCOUNTABLE FOR ONE MEMBER BANK

Statutory Provisions

“The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.”

Ten per cent
limit.

Exception.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

“The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank, shall at no time exceed ten per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.”

Ten per cent
limit.

Exception.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.)

Opinions and Rulings

What Constitutes “Actually Existing Values.”

A bill of exchange discounted before acceptance may be said to be drawn against actually existing values, within the meaning of section 13 of the Federal Reserve Act, when and only when it is

Drafts discounted
before acceptance.

accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold.

Trade acceptances.

An accepted bill of exchange, unaccompanied by shipping documents or other such papers, may be considered as drawn against actually existing values if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

(Opinion of Counsel, Page 195, March, 1917, Bulletin.)

Trade acceptances
for long standing
open accounts.

A bill drawn for a balance due on open account of long standing, which is accepted by the debtor, might constitute a trade acceptance, but in order for it to be excepted from the limitations imposed by section 13 of the Federal Reserve Act as a bill of exchange drawn against actually existing value, it must have been drawn contemporaneously with, or within such a reasonable time after, the shipment of the goods as to justify the assumption that the goods are in the hands of the drawee in their original form or in the form of proceeds of sale.

Evidence of
"actually existing
value."

As evidence of this fact, Federal reserve banks might reasonably require such trade acceptances as are offered as "bills of exchange drawn against actually existing value" to show the date of invoice, so that it may be determined whether or not the account is one of long standing.

(Informal Ruling, Page 287, April, 1917, Bulletin.)

Qualified
acceptances.

A bill of exchange drawn payable "at sight" and accepted payable in three months is a qualified or conditional acceptance, and the maker and prior indorsers are released. The instrument in effect becomes the promissory note of the acceptor, and

would not come within the exception to section 5200 [or section 13] as a "bill of exchange" drawn in good faith against actually existing value.

(Opinion of Counsel, Page 463, September, 1916, Bulletin.)

For additional opinions and rulings under this heading, but relating also to promissory notes, see pages 68-72, above.

AGGREGATE AMOUNT REDISCOUNT- ABLE FOR ONE BANK

See "Rediscount of Promissory Notes," pages 72-73, above.

INDORSEMENT OF MEMBER BANKS

See "Rediscount of Promissory Notes," page 73, above.

REDISCOUNTS FOR NONMEMBER BANKS

See "Rediscount of Promissory Notes," pages 73-75, above.

Rediscount of Six Months' Agricultural Paper

DEFINITION

Regulations of Federal Reserve Board

**Live stock
paper included.**

Six months' agricultural paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note, draft, bill of exchange, or trade acceptance, the proceeds of which have been used, or are to be used, for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VI.)

Opinions and Rulings

Live stock.

The term "live stock" is held to include not only beef cattle, but also horses and mules.

(Informal Ruling, Page 72, June, 1915, Bulletin.)

**Notes of cattle
dealers.**

Notes made by mule and cattle dealers are mercantile rather than agricultural paper.

(Informal Ruling, Page 212, August, 1915, Bulletin.)

**Notes of imple-
ment dealers.**

A note made by a dealer in agricultural implements is not agricultural paper.

(Informal Ruling, Page 212, August, 1915, Bulletin.)

**Agricultural
products or
implements.**

The purchase or sale of an agricultural product, or of implements or other commodities used in agriculture, constitutes a commercial transaction.

Where the proceeds of a note made by a merchant are used to purchase millet seed to be later retailed or sold, such a note can not be treated as one given for an agricultural purpose and can not be discounted by a Federal reserve bank if it has a maturity at time of discount of more than 90 days.

(Opinion of Counsel, Page 526, October, 1916, Bulletin.)

The bill or note of a packing company, the proceeds of which are used for the purchase of live stock which is slaughtered upon purchase, is not "based on live stock" within the meaning of section 13, and is, therefore, not eligible for rediscount if it has a maturity in excess of 90 days.

Notes or bills of packing company.

(Opinion of Counsel, Page 616, August, 1917, Bulletin.)

ELIGIBLE AGRICULTURAL PAPER

Statutory Provisions

"Notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board."

Agricultural and live stock paper.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

To be eligible for rediscount six months' agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation* which would apply

Conditions of eligibility.

* For conditions of eligibility of promissory notes, see pages 56-61, above. For conditions of eligibility of drafts and trade acceptances, see pages 79-83, above.

to it if its maturity were 90 days or less.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VI.)

Opinions and Rulings

Notes for
fertilizer.

A farmer's six months' note for commercial fertilizer, discounted and indorsed by a member bank, is agricultural paper eligible for rediscount with the Federal reserve bank.

(Informal Ruling, Page 75, June, 1915, Bulletin.)

Cattle mortgages.

Mortgages on cattle are not required, and the question whether paper secured by cattle is self-liquidating is a legal one to be determined at the Federal reserve bank.

(Informal Ruling, Page 74, June, 1915, Bulletin.)

Chattel mortgages
unnecessary.

The Act does not require the taking of chattel mortgages as security for loans based on agricultural operations. The statement of the member bank to this effect must ordinarily be accepted. The direct, primary purpose of the loan should be for the ordinary operations of agriculture. Words "based on" are not considered synonymous with "secured by." Agricultural paper need not be directly secured by agricultural products, but should be genuinely based upon transactions entered upon for agricultural operations. General banking prudence and knowledge should be applied.

(Informal Ruling, Page 72, June, 1915, Bulletin.)

Notes for
dairy cattle.

Notes signed by a farmer, the proceeds of which are used for the purchase of cows to be used as dairy cattle, are eligible for rediscount at the discretion of the Federal reserve bank notwithstanding the fact that the cattle are not primarily purchased for "breeding, raising, fattening, and marketing of live stock."

(Informal Ruling, Page 112, March, 1916, Bulletin.)

Loans on cattle for breeding, grazing, or fattening may be made under the classification of six months' agricultural paper and the paper may be rediscounted by a member bank at its Federal reserve bank.

Cattle for breeding, grazing, or fattening.

(Informal Ruling, Page 679, December, 1916, Bulletin.)

Where tractors are used to supplement the work of horses or mules, or are used altogether instead of these animals, it is held that notes given by farmers for the purchase price of tractors, and maturing within six months, should be admitted to discount as agricultural paper.

Notes for farm tractors.

(Informal Ruling, Page 309, April, 1918, Bulletin.)

Farmers' notes, the proceeds of which are used for tilling farms or for draining land already in use as farm land, should be classified as agricultural paper and are eligible for rediscount.

Farmers' notes.

(Informal Ruling, Page 743, August, 1918, Bulletin.)

A note given for the purchase price of a commodity can be classed as agricultural paper eligible for rediscount when having a maturity in excess of 90 days, if the maker is to use the commodity for an agricultural purpose, regardless of whether the note is discounted by the maker or by the indorser.

Discount by maker or indorser.

(Opinion of Counsel, Page 312, April, 1918, Bulletin.)

Where a farmer makes his note payable to the seller of a commodity, and actually uses the commodity for agricultural purposes, such a note may be treated as agricultural paper, whether discounted with the member bank by the farmer as the maker or by the seller as the indorser.

Paper payable to seller of commodity.

Where the farmer makes his note payable to the member bank and uses the proceeds for an agricultural purpose, such a note may likewise be discounted by a Federal reserve bank as agricultural paper. If, however, in either of the foregoing cases

Paper payable to bank.

the farmer does not use or intend to use the commodity purchased for an agricultural purpose, although it is capable of being so used, the note in question should be treated as commercial paper and not as agricultural paper.

(Informal Ruling, Page 310, April, 1918, Bulletin.)

Identification of
agricultural paper.

The nature of the bill, the name of the acceptor, and the name of the drawer would probably indicate that a farmer was the purchaser, and an implement dealer, the seller of the goods. However, the purchasing member bank will have to satisfy itself in some satisfactory way that the bill is substantially of an agricultural character. A simple memorandum attached to the bill, stating that the bill was drawn in payment of agricultural implements, signed either by the acceptor or the drawer, would probably be considered sufficient evidence by the member bank and the Federal reserve bank.

(Informal Ruling, Page 68, February, 1916, Bulletin.)

AMOUNT OF PAPER REDISCOUNT- ABLE BY A FEDERAL RESERVE BANK

Statutory Provisions

Discretion of
Federal Reserve
Board.

Notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock, and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

Limit of agricultural
paper rediscountable
by reserve bank.

The law prescribes that in the aggregate the total amount of agricultural paper purchased by a Federal reserve bank should not exceed a fixed per-

centage of its capital stock, to be fixed from time to time for each Federal reserve bank by the Federal Reserve Board. The percentage fixed by the Board differs in the various districts. Whenever a district has applied, the maximum limit has been granted, which has been considered to be 99 per cent of the capital stock.

(Informal Ruling, Page 68, February, 1916, Bulletin.)

For other provisions governing the rediscount of agricultural paper, see pages 68-75, above.

Rediscount of Commodity Paper

DEFINITION

Regulations of Federal Reserve Board

Commodity
paper defined.

Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, nonperishable staples properly insured.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.)

Opinions and Rulings

"Staples" defined.

"Staples" include manufactured goods as well as raw materials, provided the goods are nonperishable and have a wide ready market. This is held to include cotton yarns and flour.

(Informal Ruling, Page 523, October, 1916, Bulletin.)

Paper of mer-
chants included.

"Commodity paper" includes not only paper originating with the producer, but also paper of merchants and others when the commodity is not carried for speculative or purely investment purposes.

(Informal Ruling, Page 307, October, 1915, Bulletin.)

Potatoes a
"staple."

Potatoes, properly graded and packed and stored in a weatherproof and responsible warehouse, as evidenced by its receipt, would undoubtedly constitute a readily marketable, nonperishable staple.

(Informal Ruling, Page 614, August, 1917, Bulletin.)

Drafts drawn in connection with sales to the United States Government of lumber or other materials do not conform to the requirements of commodity paper as defined by the Federal Reserve Board.

Drafts drawn in sales to United States excluded.

(Opinion of Counsel, Page 82, January, 1918, Bulletin.)

ELIGIBLE COMMODITY PAPER

Statutory Provisions

Nothing in this Act contained shall be construed to prohibit notes, drafts, and bills of exchange secured by staple agricultural products or other goods, wares, or merchandise from being eligible for such discount.

Eligibility.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

To be eligible for rediscount at the special rates authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it,* must conform to the requirements of the Federal reserve bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount—including commission—charged the maker, does not exceed six per cent per annum.

Conditions of eligibility.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.)

* For conditions of eligibility of promissory notes, see pages 56-61, above. For conditions of eligibility of drafts and trade acceptances, see pages 79-83, above.

Opinions and Rulings

Direct discounts
not allowed.

Federal reserve banks can not discount commodity paper directly for mercantile firms.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

Drafts drawn in
sales to United
States ineligible.

Drafts drawn in connection with sales to the United States Government of lumber or other materials can not be treated as bills of exchange drawn against actually existing value and are subject to the limitations of section 5200, Revised Statutes, when discounted by national banks. Such drafts do not conform to the requirements of commodity paper as defined by the Federal Reserve Board and should not be discounted at the rate prescribed for such paper.

(Opinion of Counsel, Page 32, January, 1918, Bulletin.)

SUSPENSION OF SPECIAL RATE ON COMMODITY PAPER

Regulations of Federal Reserve Board

Rate for move-
ment of crops.

As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.)

Rediscount of Bank Acceptances

DEFINITION

Regulations of Federal Reserve Board

A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits. Banker's acceptance.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.)

Opinions and Rulings

The question of determining the eligibility of an acceptor under the regulation is left to the discretion of Federal reserve banks themselves. It is, of course, understood that the Board would not wish to see concerns regarded as eligible acceptors which are not in the habit of carrying on some acceptance business regularly and are not generally of such character and standing as to qualify their acceptance as a "banker's acceptance." Eligible acceptors.

(Informal Ruling, Page 362, November, 1915, Bulletin.)

A bill of exchange, in order to be negotiable, must be an unconditional order to pay, on demand or at a fixed or determinable future time, a certain sum of money to order or to bearer. If payment is dependent upon the happening of a certain contingency, the bill is conditional and nonnegotiable. If payment is confined to the proceeds of a particular fund and is not chargeable to the general credit Conditions of negotiability.

Conditional bill.

of the drawer, the bill is conditional and non-negotiable.

Conditional acceptance.

A general acceptance of a conditional bill or a conditional acceptance of an unconditional bill makes the acceptance a conditional one and destroys its negotiability.

(Opinion of Counsel, Page 21, May, 1915, Bulletin.)

ELIGIBLE BANK ACCEPTANCES

Statutory Provisions

Conditions of eligibility.

“Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months’ sight, exclusive of days of grace, and which are indorsed by at least one member bank.”

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

Maturity.

Any Federal reserve bank may discount for any of its member banks bankers’ acceptances which have a maturity at the time of discount of not more than three months’ sight, exclusive of days of grace, which are indorsed by at least one member bank, and which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Any Federal reserve bank may also acquire drafts or bills of exchange drawn on member banks by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange.

Indorsement.

Based on imports and exports.

Based on domestic shipments.

Secured by documents.

Drawn to furnish dollar exchange.

To be eligible for rediscount the bill must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from, a transaction or transactions involving:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries; or

Based on exports and imports.

(2) The domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or

Based on domestic shipments.

(3) It must be a bill which is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

Based on warehouse receipts.

(4) Any Federal reserve bank may also acquire drafts or bills drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange and accepted by a member bank. Such drafts or bills may be acquired prior to acceptance provided they have the indorsement of a member bank.

Drawn to furnish dollar exchange.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.)

Opinions and Rulings

There is some doubt in the courts whether the mere reference to a particular consignment of goods makes the bill conditional, some courts stating that it is merely an indication of the fund out of which the drawee is to reimburse himself; other courts holding that it makes the bill conditional because limiting payment to the proceeds of the particular shipment referred to. There is no doubt, however, that a reference, in general terms, on the face of an accepted bill to the fact that it is based on the ex-

Reference to fact bill is based on imports or exports.

portation or importation of goods would not make it conditional and nonnegotiable, and it would not, therefore, be ineligible for discount under the provisions of section 13 of the Federal Reserve Act.

(Opinion of Counsel, Page 21, May, 1915, Bulletin.)

Acceptances
indorsed by member
bank of another
district.

Federal reserve banks may, under the provisions of section 13, discount acceptances based on the importation or exportation of goods, provided they have a maturity at time of discount of not more than three months, and provided, further, that they are indorsed by at least one member bank. It is immaterial whether this member bank is located in the district of the Federal reserve bank which is making the discount or in any other district, the term "member bank" being broad enough to include member banks wherever located.

(Opinion of Counsel, Page 98, June, 1915, Bulletin.)

Discount of
acceptances not
paid at Federal
reserve bank.

The discount committee of the Federal Reserve Board has reported that, in its opinion, "Federal reserve banks should insist that acceptances when due should be paid by checks on the local Federal reserve bank, in order that they may be charged to the account of the acceptor on the day of maturity, or else that acceptances should be paid by checks through the clearings. If an arrangement on these lines can not be perfected, Federal reserve banks ought to be required to add one day to the actual number of days the acceptance has to run when bought, so as to make up for the loss of interest incurred in collecting in this manner."

This report has been agreed to by the Board, and your bank is requested, in buying acceptances, to charge discount for one additional day, except in cases where satisfactory arrangements are made to make actual cash payment at the Federal reserve bank on the day of maturity.

(Informal Ruling, Page 521, June, 1918, Bulletin.)

Acceptances of an acceptance corporation ought to be dealt with exactly as would be the acceptances of a prime private banker. These acceptance corporations are in the same relation to the Federal Reserve System as the private bankers. They can not become members, but, inasmuch as they expect to give full information about their own financial standing and the nature of their acceptances, and as they exercise a most important function for the further development of our acceptance business and discount market, their operation ought to be encouraged in every respect.

Paper of acceptance corporation.

(Informal Ruling, Page 634, July, 1918, Bulletin.)

In purchasing or discounting bankers' acceptances or other bills which are secured by warehouse receipts, etc., the Federal reserve banks should make sure that the receipt is issued by a warehouse which is independent of the borrower.

Warehouse receipts of independent warehouses.

(Informal Ruling, Page 30, January, 1917, Bulletin.)

Gold coin is "goods" within the meaning of section 13 of the Federal Reserve Act.

Gold coin as "goods."

(Informal Ruling, Page 29, January, 1917, Bulletin.)

Gold bars may be properly considered as "goods."

Gold bullion as "goods."

(Informal Ruling, Page 29, January, 1917, Bulletin.)

While a very decided differential may be inadvisable, there is no objection to a moderate differential, say $\frac{1}{4}$ of 1 per cent, to apply between member-bank acceptances and the acceptances of large non-member institutions well known throughout the country and whose acceptances necessarily have a broad market.

Differential rate for member bank acceptances.

(Informal Ruling, Page 28, January, 1917, Bulletin.)

For additional opinions and rulings bearing on this subject, see Part I, "Bank Acceptances," pages 16-21, 29-31, 33-35, 38-42, above.

INELIGIBLE BANK ACCEPTANCES

Opinions and Rulings

Chattel mortgages.

The Board, having reached the conclusion that national banks are not authorized to accept bills secured by chattel mortgages on cattle, deems it advisable that Federal reserve banks should consider as ineligible bills drawn against the security of such chattel mortgages, whether accepted by member or nonmember banks.

(Informal Ruling, Page 309, April, 1918, Bulletin.)

Bills payable
outside United
States.

Under the regulations of the Federal Reserve Board defining bankers' acceptances, any bill which is payable elsewhere than in the United States would not be eligible for purchase as a bankers' acceptance, under the provisions of Regulations A and B, Series of 1917, even though eligible in all other respects.

The acceptance, however, might properly be purchased as a bill of exchange payable in a foreign country.

(Informal Ruling, Page 520, June, 1918, Bulletin.)

For additional opinions and rulings bearing on this subject, see Part I, "Bank Acceptances," pages 16-21, 29-31, 33-35, 38-42, above.

EVIDENCE OF ELIGIBILITY

Regulations of Federal Reserve Board

Evidence furnished Federal
reserve bank.

A Federal reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that it is eligible for rediscount. Satisfactory evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank.

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.)

Opinions and Rulings

The Federal reserve bank reserves the right to ask State member banks for evidence underlying the certification given to it, and the bank examiner may require evidence from the national bank. Member banks would, therefore, best protect themselves by stipulating for themselves the right at times to ask for substantiation of the assurances given by their customers.

Requirement
of evidence.

(Informal Ruling, Page 406, December, 1915, Bulletin.)

MATURITY

Statutory Provisions

"Any Federal reserve bank may discount acceptances . . . which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace."

Three months.

(Federal Reserve Act, Section 13.)

Regulations of Federal Reserve Board

Federal reserve banks may discount for their member banks "bankers' acceptances which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace."

(Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.)

Opinions and Rulings

Acceptance business of Federal reserve banks is not restricted "to the original transactions only," if the transaction has not been liquidated. When the first acceptance matures, member bank may renew the acceptance, and there is no reason why a Federal reserve bank may not discount such renewed acceptance, although a Federal reserve bank must not engage in advance to make such discount of a renewal.

Renewals.

(Informal Ruling, Page 126, July, 1915, Bulletin.)

INDORSEMENT

Statutory Provisions

**Member bank
indorsement.**

Any Federal reserve bank may discount acceptances . . . which are indorsed by at least one member bank.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

**Indorsement
in blank.**

If the acceptance is indorsed in blank it can of course change ownership from one holder to another without being indorsed by each subsequent holder, and the title would pass.

The Board expresses the hope that we may soon reach the point when Federal reserve banks can make a definite rule not to buy bankers' acceptances except such as bear three responsible signatures, being those of the acceptor, the drawer, and the indorser.

(Informal Ruling, Page 744, August, 1918, Bulletin.)

PART III.

**Advances by Federal
Reserve Banks
on the
Promissory Notes of
Member Banks**

PART III.

Advances by Federal Reserve Banks

General Statutory Provisions

“Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers’ acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.”

Maturity.

Security:

Eligible paper;

United States obligations;

(Federal Reserve Act, Section 13.)

“The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by . . . bonds of the [War Finance] Corporation.”

War Finance Corporation bonds.

(War Finance Corporation Act, Section 13.)

SECURITY

Announcements of Federal Reserve Board

Advances may be made to member banks on their promissory notes, secured either by such notes, drafts, bills of exchange, or bankers’ acceptances

Eligible paper or Government obligations.

as are eligible for rediscount or purchase by Federal reserve banks, or by the deposit or pledge of bonds or notes of the United States.

(Announcement of Federal Reserve Board, Page 513, October, 1916, Bulletin.)

Opinions and Rulings

Indorsement of collateral.

Eligible paper pledged as security for a promissory note of a member bank on which an advance is being made by a Federal reserve bank need not be indorsed by such member bank if such eligible paper is already in negotiable form.

(Opinion of Counsel, Page 685, December, 1916, Bulletin.)

Collateral of Government bonds.

Any member bank which has itself purchased obligations of the United States may procure advances from its Federal reserve bank, for not exceeding 15 days, on its own promissory note, provided such note is secured by a deposit or pledge of bonds or notes of the United States.

(Informal Ruling, Page 159, March, 1917, Bulletin.)

County warrants ineligible.

Member banks in procuring advances from Federal reserve banks on promissory notes must secure such notes by paper eligible for rediscount or for purchase by Federal reserve banks or by bonds or notes of the United States. County warrants are not eligible as security.

(Opinion of Counsel, Page 609, November, 1916, Bulletin.)

Farm loan bonds ineligible.

Farm loan bonds are issued by Federal farm land banks incorporated under Federal law, and are not obligations of the United States, so that they are not eligible as collateral for promissory notes of member banks.

(Opinion of Counsel, Page 33, January, 1918, Bulletin.)

For conditions of eligibility of notes, drafts, and acceptances, see pages 56-61, 79-83, 91-94, 97-98, 100-103, above.

MATURITY

Statutory Provisions

Any Federal reserve bank may make advances to its member banks on their promissory notes for periods not exceeding fifteen days.

Fifteen days.

(Federal Reserve Act, Section 13.)

Opinions and Rulings

If by reason of a State law paper falling due on Saturday or Sunday must be collected one or two days before its apparent maturity or one or two days thereafter, interest should be charged accordingly.

Notes due on Sunday or legal holiday.

(Informal Ruling, Page 108, February, 1918, Bulletin.)

A Federal reserve bank may properly renew the 15-day notes of its member banks if properly secured, provided that the Federal reserve bank does not obligate itself in advance to make any such renewal.

Renewals permitted.

(Opinion of Counsel, Page 765, October, 1917, Bulletin.)

While the Federal Reserve Board does not wish to prohibit the renewal of 15-day notes, it feels that renewals should be the exception rather than the rule.

Renewals not encouraged.

(Informal Ruling, Page 879, November, 1917, Bulletin.)

PART IV.

**Open Market
Transactions**

PART IV.

Open Market Transactions

General Statutory Provisions

“Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers’ acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Cable transfers,
acceptances,
and bills.

“Every Federal reserve bank shall have power . . . to purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined. . . .”

Commercial bills.

(Federal Reserve Act, Section 14.)

General Regulations and Rulings

Regulations of Federal Reserve Board

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal reserve banks under section 14:

Conditions
governing
eligibility.

(a) Must not have been issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States;

Security paper.

Fixed, speculative, or investment paper.

(b) Must not be a bill the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for investments of a merely speculative character;

Acceptance required.

(c) Must have been accepted by the drawee prior to purchase by a Federal reserve bank unless it is accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying or securing title;

Secured bills.

(d) May be secured by the pledge of goods* or collateral, provided it is otherwise eligible.

Other requirements.

In addition to the above general requirements, each bill of exchange and trade acceptance purchased under the terms of this regulation must also conform to the more specific requirements set forth under Regulation B, III (see page 124), and each bankers' acceptance must also conform to the more specific requirements set forth under Regulation B, IV (see pages 118-119).

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, II.)

Opinions and Rulings

Promissory notes excluded.

The original bill for the establishment of Federal reserve banks permitted the purchase in the open market of "notes, drafts, and bills of exchange," but in the bill as finally enacted the words "notes and drafts" were stricken out in section 14, although they are retained in section 13. The Board has reached the conclusion, in which it is sustained by opinion of counsel, that Congress drew a distinction in sections 13 and 14 between the several forms of

* When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

commercial paper, and that promissory notes, even though bearing an additional indorsement, must be regarded as excluded from open market purchases under section 14.

There remain, then, as eligible for purchase under this section, "cable transfers" and "bills of exchange" of two kinds: (1) So-called foreign bills of exchange; and (2) domestic acceptances drawn by one party on another, as by a seller of goods upon the purchaser, such as have been classified by the Board as trade acceptances either accepted or not accepted at the time of purchase. Eligible paper.

The decision whether Federal reserve banks should engage in such open market operations rests entirely with them and not with the Federal Reserve Board.

Banks are cautioned that no bill be bought in the open market which, even if indorsed by a member bank, would be ineligible for rediscount under section 13.

(Informal Ruling, Page 360, November, 1915, Bulletin.)

Any Federal reserve bank may, under the provisions of section 14 of the Federal Reserve Act, purchase acceptances and bills of exchange of certain kinds and maturities in the open market; but promissory notes as distinguished from bills of exchange, whether one or more names, are not eligible for such purchase. Promissory notes.

(Opinion of Counsel, Page 365, November, 1915, Bulletin.)

The purchase of commodity loans from member banks without their indorsement would not come within the provisions of the law unless there is two-name commodity paper or such paper can be created in connection with commodity loans. Commodity paper.

(Informal Ruling, Page 406, December, 1915, Bulletin.)

Transactions in Bank Acceptances

DEFINITION

Regulations of Federal Reserve Board

Banker's
acceptance.

A banker's acceptance, within the meaning of this regulation, is a bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, IV.)

ELIGIBLE BANK ACCEPTANCES

Statutory Provisions

Cable transfers
and bankers'
acceptances.

Any Federal reserve bank may . . . purchase and sell . . . cable transfers and bankers' acceptances . . . of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

(Federal Reserve Act, Section 14.)

Regulations of Federal Reserve Board

To be eligible for purchase, the bill . . . must have been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving:

Based on imports
and exports.

(1) The shipment of goods between the United States and any foreign country, or between the

United States and any of its dependencies or insular possessions, or between foreign countries;

(2) The shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents;

Based on domestic shipments.

(3) The storage within the United States of readily marketable goods, provided the acceptor of the bill is secured by warehouse, terminal, or other similar receipt;

Secured by warehouse receipts.

(4) The storage within the United States of goods which have been actually sold, provided the acceptor of the bill is secured by the pledge of such goods;

Based on pledge of goods sold.

(5) Or it must be a bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange. In this latter case the bank or banker drawing the bill must be in a country, dependency, or possession whose usages of trade have been determined by the Federal Reserve Board to require the drawing of bills of this character.

Drawn to furnish dollar exchange.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, IV.)

Opinions and Rulings

Gold bars may be properly considered as goods, and accordingly 60-day bills when accepted by banks and bankers against such shipment would be eligible for purchase by Federal reserve banks as based upon or involving the exportation of goods.

Bullion shipments.

(Informal Ruling, Page 29, January, 1917, Bulletin.)

Gold coin is "goods" within the meaning of section 13 of the Federal Reserve Act; and, therefore, a bill of exchange drawn to finance a shipment of gold coin from this country is eligible for purchase by a Federal reserve bank if otherwise in conform-

Coin shipments.

ity with the provisions of the law and the regulations of the Federal Reserve Board.

(Informal Ruling, Page 29, January, 1917, Bulletin.)

For additional rulings, see, under Part II, "Rediscounts with Federal Reserve Bank," pages 100-103, above.

INELIGIBLE BANK ACCEPTANCES

Opinions and Rulings

Acceptances not
based on sales
and not secured.

Acceptances drawn by a manufacturer on and accepted by a trust company not a member of the Federal Reserve System, the proceeds of which are to be used for purchases of raw material and payment for labor where the goods had not been sold and no warehouse receipts or other instruments could be furnished, are held not to be eligible for purchase by a Federal reserve bank.

(Informal Ruling, Page 65, February, 1916, Bulletin.)

Acceptances
secured by
bill of sale.

A banker's acceptance drawn for the purpose of purchasing goods secured by a bill of sale of stock in hand is not eligible for purchase by Federal reserve banks.

(Opinion of Counsel, Page 684, December, 1916, Bulletin.)

Bills payable out-
side United States.

Under the regulations of the Federal Reserve Board defining bankers' acceptances, any bill which is payable elsewhere than in the United States would not be eligible for purchase as a bankers' acceptance, under the provisions of Regulations A and B, Series of 1917, even though eligible in all other respects.

The acceptance, however, might properly be purchased as a bill of exchange payable in a foreign country.

(Informal Ruling, Page 520, June, 1918, Bulletin.)

For additional rulings, see, under Part II, "Rediscounts with Federal Reserve Bank," page 104, above.

EVIDENCE OF ELIGIBILITY AND REQUIREMENT OF STATEMENTS

Regulations of Federal Reserve Board

A Federal reserve bank must be satisfied either by reference to the acceptance itself, or otherwise, that it is eligible for purchase. Satisfactory evidence of eligibility may consist of a stamp or certificate affixed by the acceptor, in form satisfactory to the Federal reserve bank. No evidence of eligibility is required with respect to a bill accepted by a national bank.

Evidence of eligibility.

Exception of bills accepted by national banks.

Bankers' acceptances, other than those accepted or indorsed by member banks, shall be eligible for purchase only after the acceptor has furnished a satisfactory statement of financial condition in form to be approved by the Federal Reserve Board and has agreed in writing with a Federal reserve bank to inform it upon request concerning the transactions underlying such acceptances.

Statements.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, IV.)

Opinions and Rulings

Ultimate responsibility in purchasing acceptances is held to rest with Federal reserve banks.

Responsibility for eligibility.

The announcement that the Federal Reserve Board will require statements satisfactory to it in connection with acceptances is held to mean that the statement shall be satisfactory in form.

Statement form.

(Informal Ruling, Page 13, January, 1916, Bulletin.)

MATURITY

Statutory Provisions

Any Federal reserve bank may . . . purchase and sell . . . cable transfers and bank-

er's acceptances . . . of the kinds and maturities by this Act made eligible for rediscount.

(Federal Reserve Act, Section 14.)

Regulations of Federal Reserve Board

To be eligible for purchase, the bill must have a maturity at time of purchase of not more than three months, exclusive of days of grace.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, IV.)

Transactions in Bills of Exchange and Trade Acceptances

DEFINITIONS

Regulations of Federal Reserve Board

A bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, other than a banker . . . signed by the person giving it, requiring the person to whom it is addressed to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and Bill of exchange.

A trade acceptance is defined as a bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser. Trade acceptance.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, III.)

ELIGIBLE BILLS AND TRADE ACCEPTANCES

Statutory Provisions

Any Federal reserve bank may . . . purchase and sell in the open market . . . bills of exchange of the kinds and maturities by this Act made eligible for rediscount. Eligible bills.

(Federal Reserve Act, Section 14.)

Regulations of Federal Reserve Board

A bill of exchange or acceptance to be eligible for purchase by Federal reserve banks under section 14: General conditions of eligibility.

(1) Must have been accepted by the drawee prior to purchase by a Federal reserve bank unless it is accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title;

(2) May be secured by the pledge of goods* or collateral, provided it is otherwise eligible.

Specific conditions.

In addition to the above general requirements, each bill of exchange and trade acceptance purchased under the terms of this regulation must also conform to the more specific requirements set forth under Regulation B, III (below).

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, II.)

Commercial character.

To be eligible for purchase, the bill must have arisen out of an actual commercial transaction, domestic or foreign; that is, it must be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes or the proceeds of which have been used or are to be used for the purpose of producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution. It must have a maturity at time of purchase of not more than ninety days, exclusive of days of grace.

Maturity.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, III.)

Opinions and Rulings

See "Rediscount of Drafts and Trade Acceptances," pages 79-83, above.

* When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

INELIGIBLE BILLS AND TRADE ACCEPTANCES

Regulations of Federal Reserve Board

A bill of exchange or acceptance, to be eligible for purchase by Federal reserve banks under section 14, must not have been issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States; and must not be a bill the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for investments of a merely speculative character.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, II.)

Finance paper.

Opinions and Rulings

An instrument in the form of a bill of exchange, drawn by an agent of a corporation upon the corporation itself, is not a bill of exchange such as is eligible for purchase in the open market by Federal reserve banks.

Draft drawn on corporation by agent.

(Opinion of Counsel, Page 462, September, 1916, Bulletin.)

The fact that a land company has stamped a bill a trade acceptance and has signed such statement as "acceptor" does not in itself make it a trade acceptance. The bill was accepted by the bank and not by the land company and is therefore not eligible for purchase under the regulations which require a bill to be accepted by the drawee.

Stamp "Trade Acceptance" has no value.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

For additional rulings, see, under "Rediscount of Drafts and Trade Acceptances," pages 83-84, above.

EVIDENCE OF ELIGIBILITY AND REQUIREMENT OF STATEMENTS

Regulations of Federal Reserve Board

Evidence of eligibility.

A Federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the bill offered for purchase, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

Statements.

Unless indorsed by a member bank, a bill is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, III.)

Opinions and Rulings

Stamp "Trade Acceptance" has no value.

The fact that a land company has stamped a bill a trade acceptance and has signed such statement as "acceptor" does not in itself make it a trade acceptance.

(Informal Ruling, Page 112, March, 1916, Bulletin.)

MATURITY

Statutory Provisions

Ninety days.

Any Federal reserve bank may . . . purchase and sell . . . bills of exchange of the . . . maturities by this Act made eligible for rediscount.

(Federal Reserve Act, Section 14.)

Regulations of Federal Reserve Board

To be eligible for purchase, the bill must have . . . a maturity at time of purchase of not more than 90 days, exclusive of days of grace.

(Regulations of Federal Reserve Board, Regulation B, Series of 1917, III.)

For additional rulings see, under "Rediscount of Drafts and Trade Acceptances," pages 85-86, above.

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National Bank of Commerce in New York

ORGANIZED 1839

President

James S. Alexander

Vice-Presidents

R. G. Hutchins, Jr.

John E. Rovensky

Herbert P. Howell

Faris R. Russell

J. Howard Ardrey

Guy Emerson

Stevenson E. Ward

Louis A. Keidel

Cashier

Richard W. Saunders

Assistant Cashiers

A. J. Oxenham

Everett E. Risley

William M. St. John

H. P. Barrand

A. F. Maxwell

H. W. Schrader

John J. Keenan

R. E. Stack

Gaston L. Ghegan

L. P. Christenson

A. F. Broderick

E. A. Schroeder

R. H. Passmore

Statement of Condition

November 1, 1918

RESOURCES

Loans and Discounts	- - - - -	\$307,609,266.34
Overdrafts, secured and unsecured	- - - - -	34,717.82
U. S. Certificates of Indebtedness and Liberty Bonds	- - - - -	96,560,090.37
Other Bonds and Securities	- - - - -	10,034,212.13
Stock of Federal Reserve Bank	- - - - -	1,200,000.00
U. S. and Other Bonds Borrowed	- - - - -	24,689,450.00
Bonds Loaned	- - - - -	50,000.00
Banking House	- - - - -	2,000,000.00
Due from Banks and Bankers	- - - - -	5,041,141.05
Checks and other cash items	- - - - -	3,262,846.30
Exchanges for Clearing House	- - - - -	49,315,517.36
Cash in Vault and Net Amount Due from Fed. Res. Bank	- - - - -	46,487,833.87
Interest Accrued	- - - - -	1,464,253.05
Customers' Obligations a/c Bank's Contingent Liability	- - - - -	1,440,000.00
Customers' Liability under Letters of Credit and Acceptances	- - - - -	42,210,499.09
		\$591,399,827.38

LIABILITIES

Capital Stock paid in	- - - - -	\$25,000,000.00
Surplus Fund	- - - - -	15,000,000.00
Undivided Profits, less expenses and taxes paid	- - - - -	9,376,660.45
Reserved for Taxes, etc.	- - - - -	3,096,833.25
Dividends unpaid	- - - - -	17,525.00
Letters of Credit	- - - - -	10,098,242.26
Acceptances executed for Customers	- - - - -	32,591,498.60
Deposits	- - - - -	379,835,997.64
U. S. and Other Bonds Borrowed	- - - - -	24,689,450.00
Unearned Discount	- - - - -	1,726,110.99
Bills Payable with the Federal Reserve Bank	- - - - -	88,000,000.00
Liabilities other than those above stated	- - - - -	1,967,509.19
		\$591,399,827.38



